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CBA

AUTOMOBILE FINANCE STUDY

An Analysis

of the Year-end

1992 Survey

Conducted by the Credit Research Center
Krannert Graduate School of Management
Purdue University

Dr. Michael E. Staten, Executive Director
Dr. Robert W. Johnson, Senior Research Associate

CBA CONSUMER BANKERS ASSOCIATION

1993

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Appendix 1: 1992 Questionnaire

Appendix 2: Respondents to the 1992 Survey

Appendix 3: Detailed Responses to Questions
- A: Indirect Auto Financing
- B. Wholesale/Floorplan Finance
- C. Indirect Auto Leasing

INTRODUCTION TO THE 1992 SURVEY

The Consumer Bankers Association (CBA) conducts an annual survey of the retail automobile financing activities of its membership. The 1992 Automobile Finance Survey continues the annual series which provides industry-wide benchmarks on automobile lending and leasing operations.

The 1992 survey was distributed in late December, 1992 to several hundred CBA members. The survey instrument consisted of three major sections, covering indirect automobile financing, floorplanning and leasing operations, and a fourth, introductory section which requested background information on each institution's size, geographical scope of operations and plans for its auto finance business in the future.[1] Participants were asked to return their surveys to the Credit Research Center (CRC) at Purdue University by late January, 1993. CRC was commissioned to prepare the survey instrument, tabulate and analyze the responses for preparation of this report.

CHANGES MADE IN THE 1992 SURVEY FORMAT

This year's survey continues to focus on bank indirect lending operations. Reader's familiar with the CBA survey over the years will recall that in the past, both direct and indirect operations were sampled. However, in recognition of the increasing importance of indirect lending operations (over 80.0 percent of the dollar volume of bank auto loans originated during 1991 were generated indirectly at dealerships), the CBA's Auto Finance Committee recommended an exclusive focus on indirect lending beginning with the 1991 survey. All questions on direct lending operations were dropped. This year's survey is the second consecutive study in the new, indirect lending series.

This year's report has been reorganized to provide easier access to the responses of specific questions. Following this introductory section are three analysis chapters corresponding to the three major topical sections of the survey (lending, floorplanning and leasing). These chapters provided an overview of the significant trends identified in the data. Only selected tables and charts are included in these chapters. However, Appendix 3 contains detailed tables which display the responses from every question on the survey, in the approximate order in which they appear on the questionnaire.

Revisions were made to several questions in this year's survey as part of an ongoing effort to clarify question wording, and to collect meaningful information for decision-makers. Readers interested in comparing 1991 vs. 1992 responses should check the appendix of both reports for the exact wording of questions.

In addition, some caution should be used in comparing responses across years. Whenever participation in surveys is voluntary, considerable turnover in the respondent

base occurs from year to year. The 1992 survey generated responses from 101 institutions. Fifty three were from banks and auto finance companies who also responded in 1991. An additional forty eight responses were from new participants (although the operations of many of these new participants actually include the portfolios of last year's respondents which were either merged or sold). The addition to the sample of some very large banks, or banks with experience substantially different from the average, makes cross-year comparisons of some items misleading.

One alternative for preserving direct comparability of responses across survey years is to identify a core group of banks that respond every year and track how their responses change. This was our initial objective with the 1992 survey. However, due to the nearly 50 percent turnover rate in the sample, our convention of splitting the respondents by portfolio size, and the tendency of many banks to skip some questions on the survey, the sample sizes of the respective groups of core respondents (on certain questions) became quite small. To preserve statistical credibility of the analysis, as well as confidentiality of each institutions' responses, we do not report the responses of the subset of core banks that have participated in consecutive years. As the participation of institutions stabilizes (higher percentage of the sample composed of institutions that reported the prior year) analysis of a core group becomes more feasible. It would greatly improve the quality of the analysis if all institutions who reported this year would also participate in next year's survey.

Despite these difficulties, many questions were designed so that meaningful year-to-year trends could be analyzed. These questions ask respondents to supply data for both 1992 and 1991. Unless otherwise indicated, all year-to-year comparisons (typically expressed as annual percentage changes) are based on this year's respondents who provided data on both 1991 and 1992 ***as part of this year's survey***.

Reader's should keep in mind several other points when interpreting the charts and tables to follow. Unlike some other national surveys of auto and installment lending, no geographical comparisons are provided in this report. Many respondents indicated that they operated in more than one state, but were unable to divide their responses by state of origination. Cross-state or even cross-region comparisons are not meaningful with aggregated data and are omitted from this report. However, categorization of respondents based on portfolio size (number of loans or leases) yielded substantial and interesting variance in responses to many questions. Throughout this report, responses are subdivided by three portfolio size categories (small, medium, large), as described in the following sections.

Also, the number of respondents is reported for most questions to provide a basis for judging the representativeness of the responses. However, it is quickly apparent that

response frequency varies considerably across questions. Many banks skipped selected questions, or answered only part of some questions. Consequently, usable responses fluctuate dramatically, particularly in the sections on loan delinquencies and losses. In particular, the number of leasing respondents who fell in the "small portfolio" category was so small that, to preserve confidentiality, only the medium and large categories are broken out in the leasing tables. However, the responses of the group of small lessors are included in the tabulations for the entire group of leasing respondents.

ECONOMIC BACKGROUND: 1992 MARKET CONDITIONS

Auto Sales Sluggish but Improving by Year's End

As go automobile sales, so goes automobile credit. Exhibit 1.1 illustrates that, since 1990, U.S. retail sales of cars and light trucks have languished 15 to 20 percent below the levels experienced during 1984-1988. Annual sales in excess of 15 million units during the mid 1980s rapidly increased total automobile credit outstanding, which peaked in real terms during 1988 (Exhibit 1.2). Since 1990, automobile credit outstanding, like car sales, has slumped, dropping by $26 billion between December, 1990 and December, 1992 (Exhibit 1.3).

EXHIBIT 1.3
Automobile Credit in the U.S.*

Year End	*Total Auto Credit*	*Bank-Held Auto Credit*	*Bank Percent Share*
1990	$285.1	$124.9	43.8%
1991	$263.1	$111.9	42.5%
1992	$259.4	$108.6	41.9%
Percent Change 1991 to 1992	-1.4%	-2.9%	

*Not seasonally adjusted. Excludes securitized assets, auto credit in HELC's, and automobile leases. Pools of securitized auto loans totalled $33.6 billion at year-end 1992.

Bank's share of total automobile credit outstanding has dropped somewhat over the past dozen years from 48.8 percent of all automobile credit outstanding in 1980. More recently, banks' share of auto credit outstanding dropped from 44.3 percent in 1990 to 41.9 percent by the end of 1992. Growth in auto lending by credit unions accounts for most of this recent erosion in banks' share, as credit unions' share rose from 16.5 percent of all auto receivables in December, 1990 to 18.5 percent in December, 1992.

Although Exhibit 1.4 appears to show the share of the captive auto finance companies dropping during the past decade, in fact the captives have come to rely heavily on securitization of auto receivables. Most of the securitized auto receivables depicted in Exhibit 1.4 were originated by the captive auto finance companies. Securitized auto

receivables generated by finance companies rose from about $13 billion in December, 1989 to about $30 billion by December, 1992. Consequently, little change has occurred since 1980 in the share of auto credit originated by finance companies.

Despite the negative growth in bank-held automobile credit depicted in Exhibit 1.3, it is also clear that 1992 was a better year for automobile financing than 1991. Whereas outstanding automobile loans fell nationally by 5.9 percent between years-end 1990 and 1991 (10.4 percent drop for banks), the decline was only 1.4 percent between years-end 1991 and 1992 (2.9 percent drop for banks).

In both years, the decline in auto financing was probably overstated, more so in 1992 than in 1991. Leasing activity was significantly higher during 1992 (up to one quarter of all new car sales were financed by leases, according to leasing analysts[2]). To the extent banks were involved in leasing activities, the apparent loss in indirect financing volume may have been more than made up in new leases. Nationally, it is quite possible that increases in leasing activity during 1992 offset the decline in auto loans outstanding as reported by the Federal Reserve System. However, the Fed data do not include retail lease contracts, nor is there any reliable source of such data nationally.

Moreover, recent surveys of home-equity account holders indicate that 10-11 percent of advances on home equity loans (both closed-end, second mortgages and open-end lines of credit) during 1991 were used for automobile purchases.[3] By comparison, only 4-5 percent of home equity loan advances during 1987 were used for automobile purchases. The Fed data series on automobile credit does not include real-estate secured credit. To the extent that consumers continue shifting their automobile financing to either home equity accounts or to leases, the traditional installment loan series on automobile credit will increasingly understate the total volume of business associated with financing automobile purchases.

Outlook for Auto Sales, 1993-1995

Economists are increasingly optimistic that an upturn in auto sales is at hand. Analysts for the National Automobile Dealers Association (NADA) forecast a long-term trend line for the 1990s of about 14.5 million units sold per year. The trend line reflects the components of underlying demand, independent of the peaks and valleys associated with the business cycle. As illustrated in Exhibit 1.1, since August, 1990 the U.S. auto market has endured such a valley (12.3 million vehicles sold in 1991, 13 million sold in 1992). Below-trend years generate pent-up demand which is satisfied by several years of above-trend sales early in expansionary periods. NADA economists think we are on the threshold of such an boom, although it may not begin until late 1993, and may be 1995 before U.S. auto sales hit the 15 million unit mark for annual sales.

From 1985-1988, auto sales averaged about 15.5 million units per year. Sales slowed by the end of the decade, even before the recession, for several reasons. Most importantly, personal income growth slowed by 1989. Real Gross Domestic Product (GDP) grew at an annual rate of 3.6 percent from 1985-1988, which was high relative to an average annual growth of 2.7 percent from 1969-1988, and triggered booming auto sales through the mid-1980s. GDP growth slowed in 1989 to 2.6 percent and further still in 1990 with the onset of the recession. Auto sales, always sensitive to income, slowed accordingly.

In addition, more lenient financing terms during the 1980s (longer maturity, lower down payments) accommodated demand despite higher sticker prices. The average maturity on auto finance company loans originated during 1983 was 45.9 months. By 1988 average maturity had stretched to 56.2 months. Over the same period, average downpayment on finance company auto loans fell from 15 percent to 6 percent. However, problems associated with borrowers' negative equity, particularly on the common 60-month loans, sensitized lenders to the heightened risk of default. Credit terms began to stiffen by 1989, and the tighter underwriting guidelines probably contributed to the decline in auto sales, relative to booming mid-1980s.

To some extent, the longer maturities through the 1980s were warranted by improved durability (longevity) of autos. Between 1974 and 1988, the average age of cars on the road increased from 5.7 years to 7.6 years. The proportion of cars over ten years old on the road increased to 30 percent in 1988, up from only 15 percent in 1975. However, the increased longevity of cars does not fully account for the dramatic lengthening of the trade-in/scrappage cycle experienced in the last five years.

Of equal or greater importance was the decline in consumer confidence between August, 1990 and February, 1991, which led to deferrals of many consumer durable purchases, particularly automobiles. The slump in confidence persisted throughout 1991 and into 1992 before beginning a rebound. Buoyed by rising confidence and growth in consumer spending, auto sales by the end of 1992 had improved to the point where industry analysts were forecasting a 14-15 million vehicle sales rate by 1994.

What are the long-term factors that generate such optimism? Certainly, as the economy begins to grow again, rising GDP will boost consumer spending, much as it did through the 1980s. But few economists predict growth in the 1990s to be as robust as during the last decade. Instead, other factors will drive up demand in the near-term and moderate demand as the decade draws to a close.

The overwhelming factor driving near-term auto sales forecasts is the level of pent-

up demand for new cars signalled by the aging fleet of cars still on the road. Statistics in Exhibit 1.5 illustrate the lengthening of the scrappage cycle. In 1991, 71 percent of the cars built ten years earlier were still on the road. Ten years earlier, in 1981, only 59 percent of the cars that had been built in 1971 were still on the road. Industry analysts consider cars in their peak scrappage years when they become 12 years old. In 1980, 19 million cars were in their peak scrappage years. In 1993, 44 million cars are in their peak scrappage years.[4] In 1980, 10.8 million vehicles were scrapped, but in 1993 only 10.1 million vehicles were scrapped, dramatic evidence that the slump in confidence caused consumers to postpone decisions to replace old vehicles, decisions that normally have fueled new vehicle sales. Since, replacement decisions can't be put off indefinitely, analysts expect consistent growth in auto sales, beginning in 1993.

EXHIBIT 1.5
10 Year Vehicle Scrappage Rates

Model Year	*Ten Year Period End*	*Percent Operational*	*Percent Scrapped*
1966	1976	58%	42%
1971	1981	59%	41%
1976	1986	70%	30%
1981	1991	71%	29%

Offsetting pent-up replacement demand to at least some degree are two demographic trends will buffet the auto industry during the remainder of the decade.[5] First, the 1990s will experience slower growth in the driving-age population (aged 16 and over). The average annual growth rate in the driving-age population during the late 1960s and through the 1970s was 1.9 percent. During the 1980s the annual growth rate slipped to 1.1 percent. The forecast for the 1990s is only 0.8 percent annually. Growth in auto demand will slow accordingly. Auto sales during the 1980s also received a boost from the growth in the percent of multivehicle households, which rose to over 50 percent by 1991 as the number of two-income families rose. However, demographers tell us that the two-income household percentage has stabilized recently, so auto sales will not receive a renewed boost from this direction.

What does all of this mean for the auto industry in the near term? Below-trend sales for both 1991 and 1992 have generated 3-4 million units of pent-up demand. NADA economists see a potential for one or two 15-16 million unit sales years, beginning as early as 1994-95. Given that auto loan interest rates have dropped over the past 12 months and incomes are beginning to grow, a boom in auto sales may be at hand. Indirect auto lenders should be poised to service the surge in demand for financing (both lending and leasing) when it arrives.

PROFILE OF THE 1992 SAMPLE

One hundred one institutions provided completed questionnaires on at least one of the three areas of operation covered in the survey. Ninety eight were involved in indirect auto lending. The remaining institutions engaged strictly in leasing activities. Although 98 may appear to be a small and non-random sample, the respondents collectively held over $47 billion of receivables in their indirect loan portfolios. Excluding the holdings of several automobile finance companies and one foreign bank, receivables held by U.S. banks in the sample accounted for 40.4 percent of all bank-held automobile credit. Over 60 million loans made up those receivables and were made to consumers in all regions of the U.S. Given the competitive pressures of the auto financing market, we believe the responses provide a reasonable approximation of the range of marketing practices and experiences that influenced all banks as well as other lenders involved in indirect auto lending during 1992.

EXHIBIT 1.6
1992 SAMPLE INDIRECT LOAN PORTFOLIOS

	Aggregate Sample Portfolio, 12/92	*Total 1992 Bookings*
Number of loans	6.52 Million	2.11 Million
Dollars of receivables	$47.55 Billion	$24.03 Billion

Number of respondents = 96.

The change in the size of respondent's indirect loan portfolios from 1991 to 1992 for the 79 respondents who provided data for both years as shown in Exhibit 1.7. As was the case in the 1991 survey, the respondent banks as a group appear to have fared significantly better than automobile lenders nationally, as the average (mean) auto receivables held by banks in the sample rose by 11.0 percent (the average number of loans rose by 6.5 percent).

EXHIBIT 1.7
Profile of 1992 Sample*
Indirect Loan Portfolios

	1991	*1992*	*Percent Change*
Mean values:			
Number of loans (000's)	61.43	65.32	6.5%
Dollars outstandings (millions)	$487.4	$536.2	11.0%
Median values:			
Number of loans (000's)	27.53	28.57	3.1%
Dollars outstandings (mil)	$219.23	$222.3	1.4%

*For 79 banks that reported both years.

A different picture of the common experience is revealed by calculating the (unweighted) mean and median of the respondent's own percentage changes in portfolio size from 1991 to 1992. In essence, this measure is a "one bank, one vote" method of capturing the average experience of institutions. That is, a 1 percent increase in portfolio size for a bank with 5,000 loans carries the same weight in calculating the group average as a 1 percent increase for a bank with 500,000 loans.

Exhibit 1.8 reveals that the mean of the respondent's percentage changes in number of loans was 3.9 percent. However, the mean calculation is apparently dominated by quite large, positive percentage increases experienced by a few banks, because the median experience of respondents with respect to change in the number of loans was negative, a decline of 3.2 percent. The significance of the median calculated in this fashion is to show that over half of all responding banks experienced a decline in the number of loans in their portfolios.

The mean of the respondent's percentage changes in dollar value of their portfolio receivables was 6.0 percent while the median percentage change was 1.6 percent. Two points should be noted. First, a comparison of the 6.0 percent figure with the 11.0 percent increase in dollar outstandings for the sample reported in Exhibit 1.7 suggests that the latter figure was driven by positive growth in several large portfolios, and overstates the average experience for the rest of the sample. Second, given that the median of the respondents percentage changes in dollar receivables was 1.9 percent, we conclude that even though over half the respondent portfolios declined in terms of *number* of loans, some of these banks experienced growth in the dollar value of the receivables.

The various economies of scale associated with processing, holding and servicing large numbers of loans probably create differences across banks in operating procedures. This general hypothesis was supported by the 1991 survey results. Consequently, in this year's report we continue to divide the sample of 96 banks (which reported portfolio size) into three size categories based on the number of loans in their portfolios. Divisions between categories were specified in the 1991 report based on significant breaks in the distribution of respondents when sorted from smallest to largest. Inspection of the 1992 data reveal the same general divisions are appropriate for this year's sample. Consequently, the portfolio size categories reported in Exhibit 1.9 for the 1992 sample are the same as the ranges employed last year, which should improve the comparability of results between the two surveys.

EXHIBIT 1.9
1992 Sample by Portfolio Size

	Number of New and Used Loans			*Dollars Outstanding (millions)*		*Number*
Category	*Range*	*Mean*	*Median*	*Mean*	*Median*	*Responding*
Small	less than 8,000	4,229	3,336	$30.9	$24.0	22
Medium	8,000 to 38,000	20,808	17,630	$169.9	$138.0	40
Large	38,000 or more	137,509	97,751	$1,098.3	$688.0	33
All		57,507	25,000	$468.3	$195.6	95

Twenty two lenders were classified in the small portfolio category, each holding fewer than 8,000 indirect auto loans. The middle category held 40 respondents with portfolios ranging from 8,000 to 38,000. Thirty three "large" respondents had portfolios of more than 38,000 loans, with a mean portfolio size of 137,509 loans and a median size of 97,751 loans.

All 96 banks were involved in indirect lending. Exhibits 1.10 and 1.11 reveal significant differences across the three size groups in terms of other auto financing activities. Only 14 percent of the banks in the small group engaged in leasing, compared to 58 percent of the large institutions. Similarly, only 27 percent of small respondents maintained floorplanning operations, compared to 70 percent of medium sized and 88 percent of large institutions. The following sections will report many other significant differences across banks associated with difference in portfolio size.

EXHIBIT 1.11
Current Auto Financing Activities
Percent of Respondents

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Indirect lending	96	98	100	98
Indirect leasing	14	27	58	36
Floorplanning	27	70	88	66

NOTES

1. Appendix 1 contains a copy of the questionnaire and introductory letter sent to CBA members inviting participation in the survey. Appendix 2 displays a list of responding institutions.

2. "Lease Trak Reports," CNW Marketing/Research, Bandon, Oregon, 1992.

3. "Home Equity Loan Study," Consumer Bankers Association, 1992.

4. Data provided by industry analyst Ron Glantz, as presented to the CBA's Annual Auto Finance Conference, New Orleans, March 10, 1993.

5. The following discussion draws heavily on an article by economist David Wong, "The U.S. Auto Industry in the 1990s," *Business Review*, Federal Reserve Bank of Philadelphia, July/August, 1990, pp 11-20.

Exhibit 1.1

U.S. Retail Sales of Cars & Light Trucks (Millions of Units)

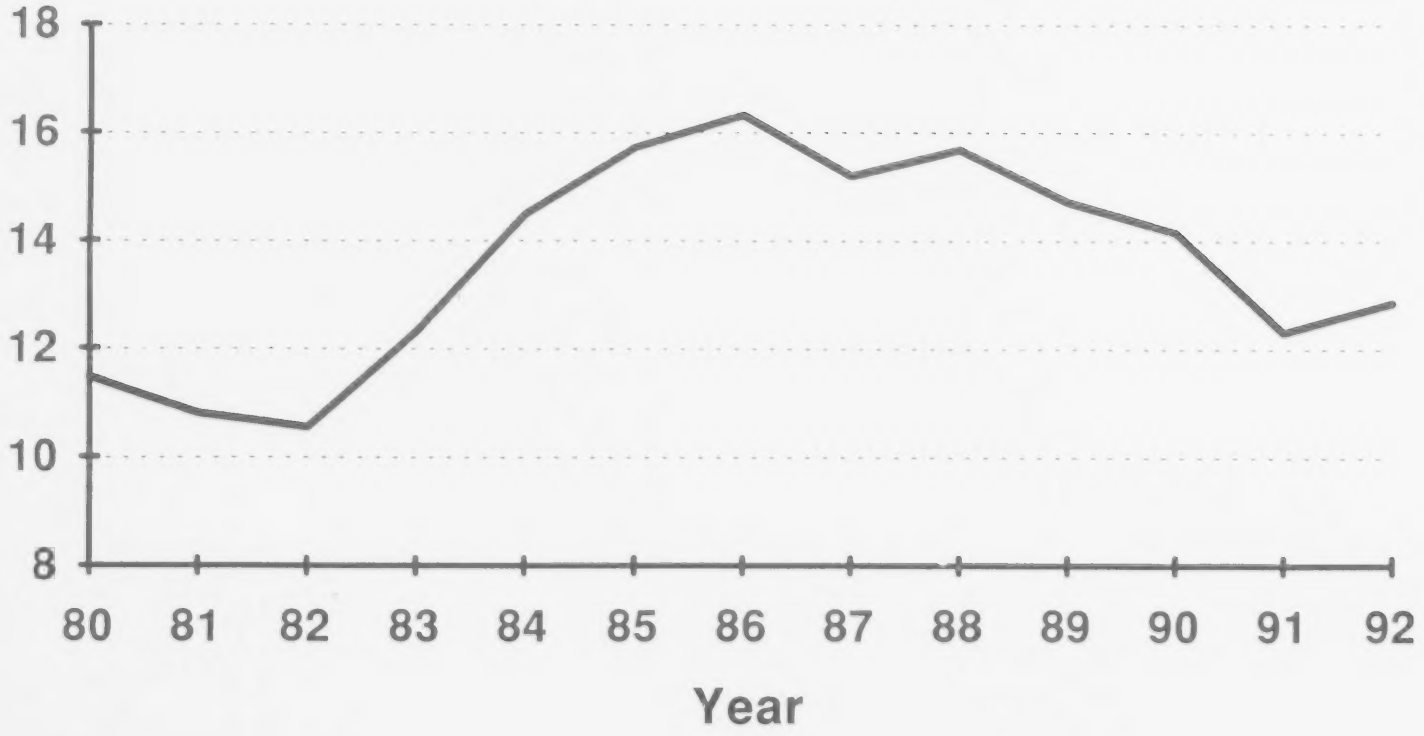


Exhibit 1.2

Real Auto Credit Outstanding
(1982 - 1984 Dollars, Billions)

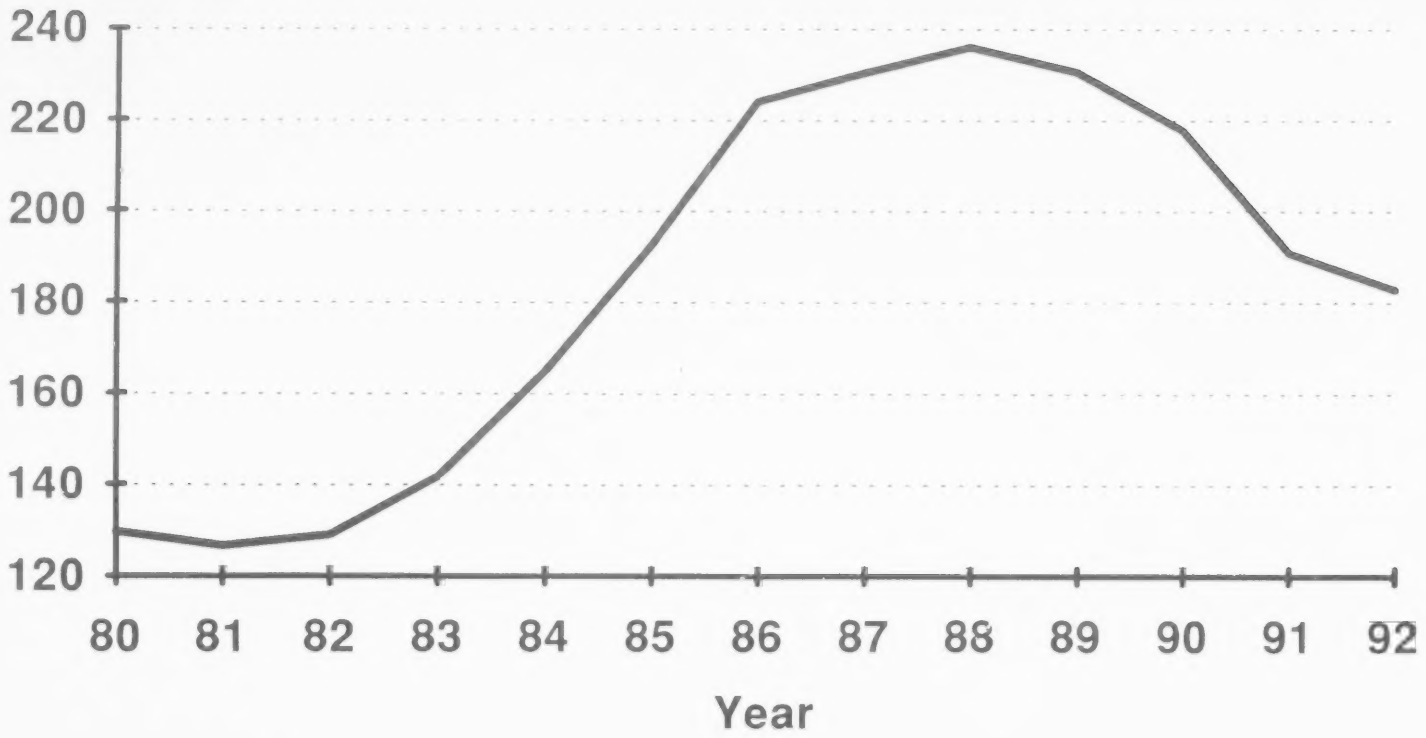
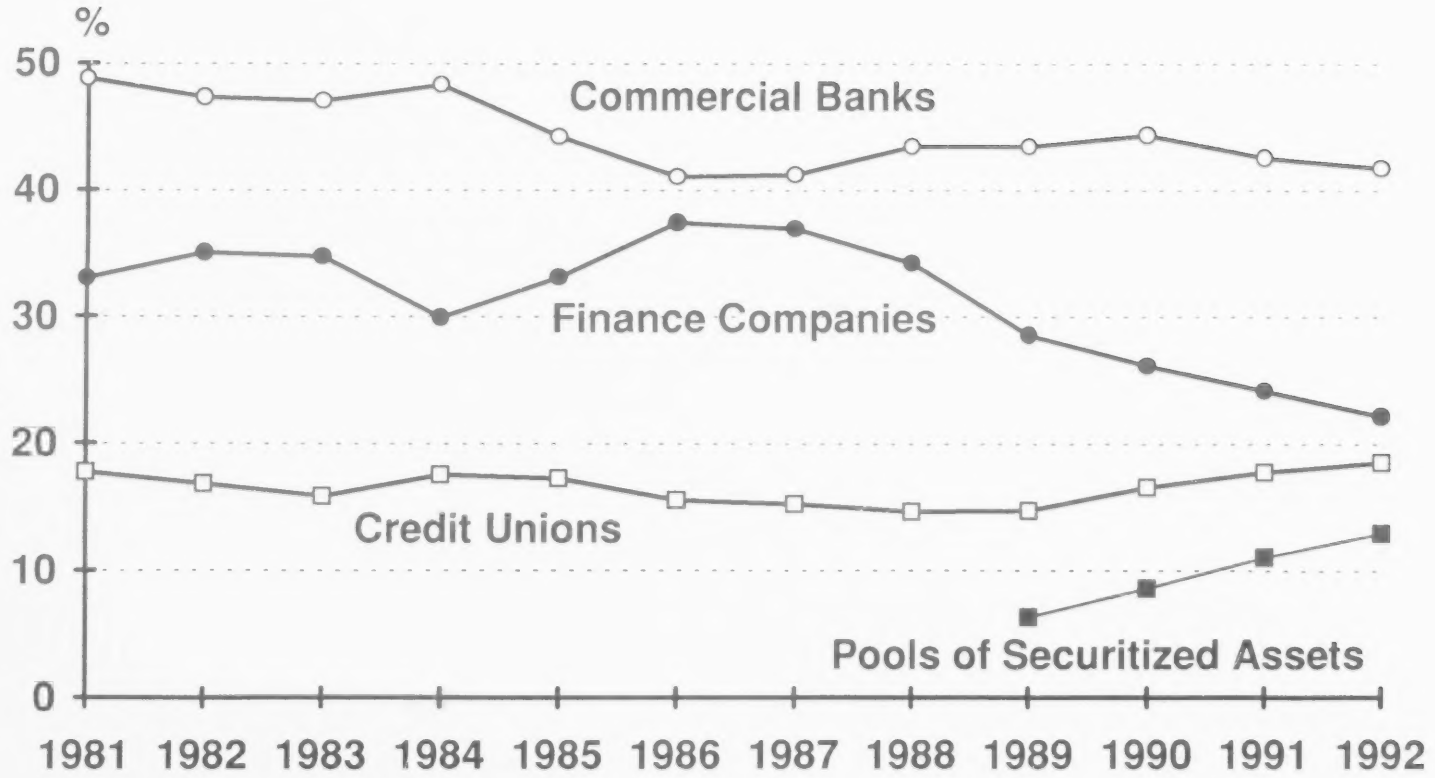


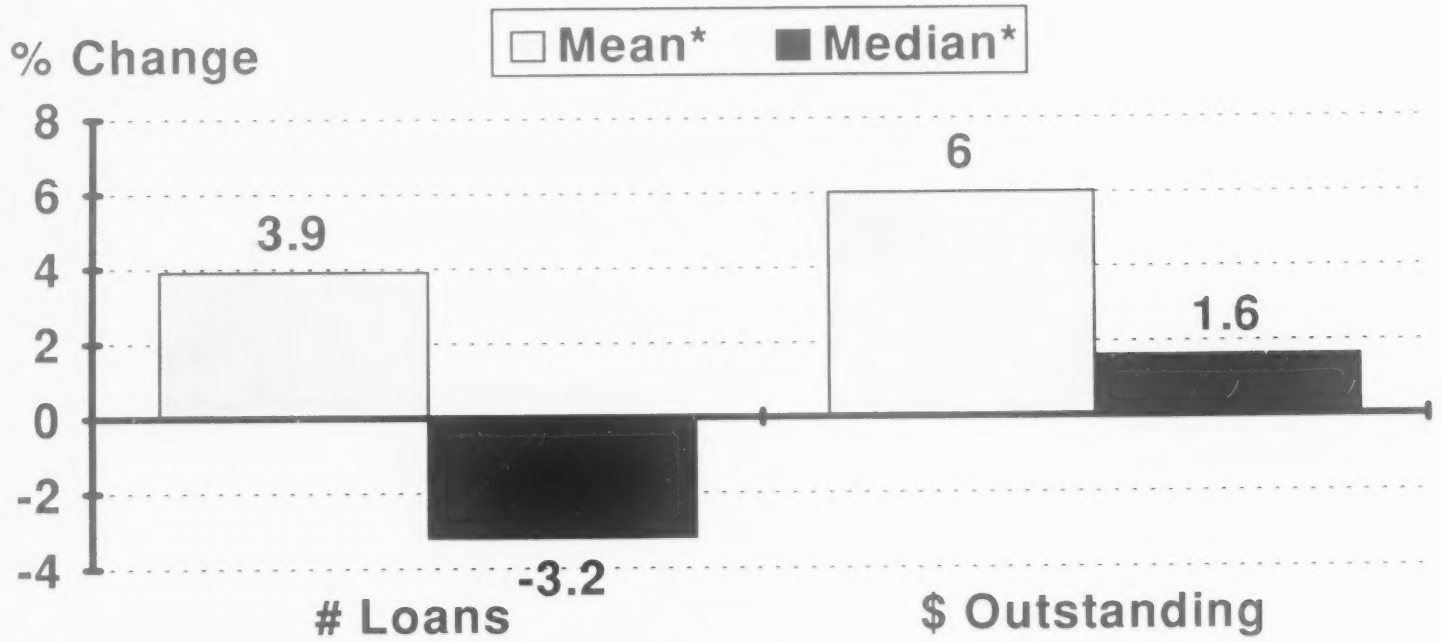
Exhibit 1.4
Distribution of Total Outstanding Automobile Credit



Source: Federal Reserve

Exhibit 1.8

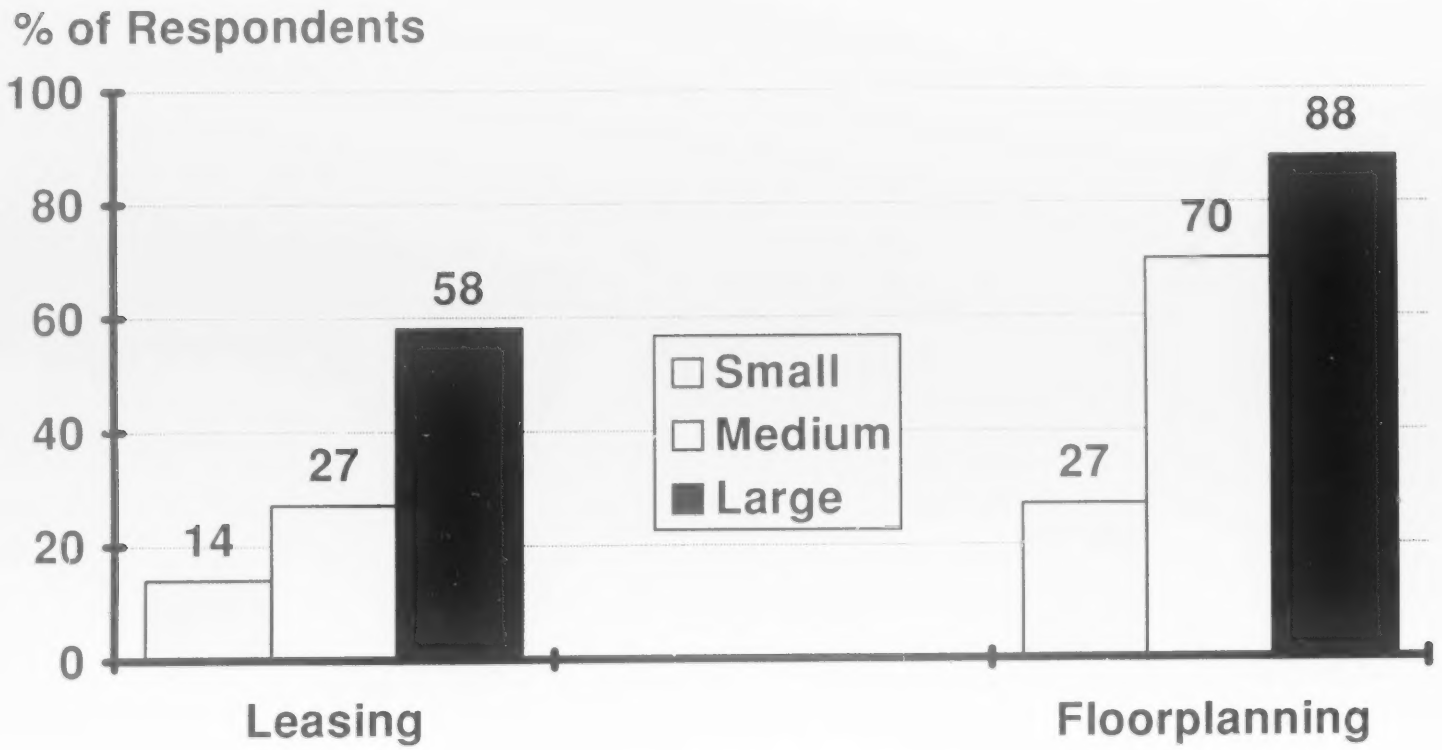
Change in Indirect Loan Portfolios, 1991 to 1992



* Mean (Median) of Respondents' Percentages

Exhibit 1.10

Current Auto Financing Activities by Portfolio Size



INDIRECT AUTO FINANCING

OVERVIEW OF SAMPLE

Most of the data in this section of the report were provided by the 97 banks that responded to the indirect lending portion of the survey. To allow analysis by size of respondent, we have divided the group into the three size categories shown previously in Exhibit 1.4. As will be seen later, there were some notable differences in the policies and performance among respondents with small, medium and large portfolios. (For convenience in discussion, we will often refer to these as small, medium and large respondents.)

Four general cautions are applicable to the analysis in this and the following two sections:

- Only about two-fifths of respondents were able to segregate data by new and used autos. Hence, when analysis focuses on portfolios composed of both new and used autos, some of the variations that appear to be associated with size of auto-loan portfolios may reflect differences in the used-vs.-new composition of the portfolios. For example, a portfolio dominated by new autos will display larger balances, lower interest rates, lower delinquencies and longer maturities than one dominated by used autos. In addition, changes in the performance of portfolios over time may reflect unrevealed shifts in the composition of those portfolios.

- In some instances in this and the following sections we display both the mean (average) and median values. Medians, or middle, values are usually below the means, because the means are increased by a few large "outliers." This differential is greatest for the subset of large respondents, since the small and medium respondents are constrained by the upper limits on size in each group.

- Unless otherwise noted, most exhibits are based on averages (means) of percentages reported by individual respondents within each size group. For example, assume that we have the following data relating to application approval rates for three respondents:

	A	*B*	*C*	*Total*
Number of applications	100	50	30	180
Number of approvals	40	25	18	83
Percent approved	40%	50%	60%	46.1%

The difficulty of using the 46.1 percent is that it is dominated by A, which has more applications than the other two firms combined. To avoid the dominance of the results by a few large respondents, we have sought to produce a more representative report by frequently averaging the percentages reported by each respondent, thereby giving all respondents equal weight: (40% + 50% + 60%)/3 = 50%.

- Finally, some portion of changes from 1991 to 1992 is attributable to a slight inflation in the prices of new and used autos, with the impact of changes depending upon the models and model year.

TRENDS IN LOANS MADE: 1992 VS. 1991

Data from the Federal Reserve Board show that total automobile credit outstanding at the end of 1992 was down slightly from the level at the end of 1991 (see Exhibit 1.3). However, these data omit automobiles financed with leases or home equity loans. The 80 respondents who provided information on outstanding auto loans for both 1991 and 1992 reported an 8.7 percent growth in outstandings, as shown in the appendix. The difference could be explained by a number of factors, including the known potential bias that more successful firms or individuals are more likely to respond to questionnaires than unsuccessful ones. However, in this case we suspect that we probably have under-reporting by small firms, whose dollar outstandings did not grow as rapidly as that of large firms.

Offsetting the run-off of old loans were new loans made during 1992. The 83 firms that reported their indirect lending *volume* for both 1991 and 1992 demonstrated a very strong growth, with the number of loans made rising 18 percent and the dollar volume higher by almost 25 percent (Exhibit 2.1). The difference in growth rates indicate that financing of high-priced autos grew faster than the financing of low-priced autos.

EXHIBIT 2.1
TOTAL LENDING ACTIVITY DURING 1991-92*
(Mean Values)

	1991	*1992*	*% Change*
Number of applications (000's)	63.21	72.10	+14.1%
Number of loans (000's)	19.34	22.79	+17.8%
Dollar volume (millions)	$230.70	$287.70	+24.7%

*Number of banks reporting both years = 83.

With the same sample of banks, we were able to compare growth rates of applications, number of loans made and gross dollar volume by size of portfolio (Exhibit 2.2). Medium respondents showed a much higher growth rate in dollar volume than in number of loans--a difference that suggests a greater reliance on new-auto loans.

This possibility is supported by Exhibit 2.3. In contrast, small respondents reported an increase of just over 24 percent in the number of loans made, but an increase in dollar volume of less than one percent. The cause of the difference is also revealed in Exhibit 2.3, where the average loan made on new autos by small respondents was almost nine percent below that of the large respondents, and the average loan made on used autos was about 12 percent below that of the large respondents.

EXHIBIT 2.3
1992 Loan Characteristics
(Mean Values)

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Percent of new auto loans	54.7%	57.4%	53.2%	55.4%
Average loan size				
New	$12,279	$13,224	$13,473	$13,109
Used	$8,118	$8,543	$9,240	$8,704

Since new-auto loans are, on average, less risky than used-auto loans, especially low-priced used autos, we can expect to see these differences in lending polices reflected in data relating to credit quality by size of respondent. Thus, large respondents would be expected to have lower net losses as a percentage of net losses than small or medium respondents.

OPERATIONS DURING 1992

The fraction of applications that ultimately result in a new loan is a function of how well the lenders' standards match the applications provided by dealers and the competition for acceptable applicants. If some dealers mis-judge or are not well informed about a lender's credit standards, a high proportion of applications from those dealers may be rejected. Acceptance rates may also be affected by changes in lenders' concerns about credit quality as the economy moves into or recovers from recession. The ability to convert an acceptance into a loan may be affected by the banks' competitiveness on credit terms.

Exhibit 2.4 shows the percentages of applications accepted by the three sizes of respondents. It is worth noting that within each group the percentage of applications accepted were calculated by dividing the total number of applications accepted by the total number of applications. Two trends are evident. First, a higher proportion of applicants was accepted in 1992 than in 1991, though the change was greatest for small respondents. Such a change might reflect an improved economy, wherein applicants had better prospects for repayment than in 1991, or it could result from small respondents agreeing more with dealers on credit standards. Second, large respondents had higher acceptance rates than small ones. The difference may reflect, in part, the use of credit-scoring systems by large respondents, such that they can achieve a higher acceptance rate, but not higher

delinquency or charge-off rates. Alternatively, they may have been willing to accept a higher risk than smaller respondents.

On average, about three-fifths of accepted applications resulted in a loan (Exhibit 2.5). Presumably, those approved applicants that did not sign for a loan borrowed elsewhere or withdrew from the market. It is evident that large respondents converted a significantly higher proportion of their approved loans into actual loans. In both 1991 and 1992, large respondents booked two-thirds of their approved loans.

Since the application booking rate is simply the product of the approval rate multiplied by the approval booking rate, it should come as no surprise that large firms had a significantly higher success rate in converting applications to loans than smaller respondents (Exhibit 2.6). Given the costs involved in appraising applications and then converting the approved applications to loans, the data suggest that large firms may have a significant advantage in this phase of their operations. Essentially, during 1992, large firms had a 37 percent probability of generating a loan out of an application versus about a 27 probability for smaller respondents. An offsetting factor may be that large respondents experienced higher delinquency rates.

A critical element in the quality of service that banks can provide dealers (and one possible explanation for large respondents' high rate of conversion of applications to loans) is the speed with which they respond to loan applications. However, they must balance speed against the quality of the decision. Bank management does not want decisions made so quickly that delinquencies and repossessions rise.

How rapidly are loan decisions made and what determines the average processing time? Overall, 46 percent of all respondents reported that average processing time was under one hour (Exhibit 2.7). An obvious question is how the processing time is related to the size of lender and whether or not they use automated or manual systems.

Oddly, it was the large respondents who required more processing time than the small and medium respondents (Exhibit 2.8). Whereas half of the small and medium respondents reached a decision within an hour, only 38 percent of large respondents did so. This result is somewhat puzzling, since we would expect that the banks with large portfolios would be highly automated, with a resulting ability to make quick decisions. Three-fifths of all respondents used automated systems relying on credit scoring of applications or generic scoring based on credit bureau reports. As expected, large- and medium-sized respondents were much more likely than small respondents to use automated systems incorporating credit scoring or bureau-based scoring (Exhibit 2.9). However, almost a fourth of large respondents were not automated.

A partial answer to the puzzle is that use of automated systems does not appear to have significant impact on processing time. Thus, we see in Exhibit 2.10 that 53.5 percent of respondents using automated systems reported an average processing time exceeding

one hour, as did 55 percent of those using the manual system . However, the portion of automated lenders requiring two hours or more was significantly less. Thus, there is some advantage to automation in shortening average processing time, but not as much as one might expect.

EXHIBIT 2.10
Association of Automated Systems to Processing Time and Number of Decisions Per Day Expected of Loan Officers
(Percentage of Respondents)

	Application Processing System	
Average Processing Time	*Automated*	*Manual*
Less than ½ hour	10.3%	7.5%
½ hour to less than 1 hour	36.2%	37.5%
1 to less than 2 hours	41.4%	32.5%
2 hours and over	12.1%	22.5%
	100.0%	100.0%

If automation did not speed the decision, what did it do for the medium and large respondents? As vividly demonstrated in Exhibit 2.11, automation enabled banks to make more decisions per day. Essentially, automated lenders took about the same amount of time to make decisions as manual lenders, but made many more decisions per day. Thus, they cut the labor cost of making credit decisions by substituting automation. Among automated banks, 41.5 percent expected over 60 decisions per day from their loan officers, compared to only 11.3 percent of banks using manual systems. A corollary of this relationship is that 47 percent of large respondents expected over 60 loan decisions per day from loan officers versus only 9.6 percent of small respondents (Appendix tables).

EXHIBIT 2.11
Association of Automated Systems to Processing Time and Number of Decisions Per Day Expected of Loan Officers
(Percentage of Respondents)

	Application Processing System	
Number of Decisions per Day	*Automated*	*Manual*
25 or less	1.7%	20.0%
26 to 35	17.2%	22.9%
36 to 50	22.4%	22.9%
51 to 60	17.2%	22.4%
over 60	41.5%	11.3%
	100.0%	100.0%

LENDING POLICIES

As one might expect, competition for dealer business has fostered considerable commonalty in credit terms. Data from the CBA survey are quite similar to national data on credit terms of finance companies provided by the Federal Reserve Board (Exhibit

2.12). The average amount financed on new-auto loans and ratios of loan to value of these banks and finance companies serving the indirect auto loan market are quite comparable. Differences among respondents by size were not large enough to be statistically significant.

EXHIBIT 2.12
New Auto Loan Terms, 1992
Banks vs. Auto Finance Companies

	CBA Survey	*Auto Finance Companies**
Maturity		
Mean months	—	53.6
Percent over 60 months	12%	—
Percent 49 to 60 months	61%	—
Amount financed		
Average amount financed	13,425	14,408
Max loan to value	—	90%
Percent MSRP	89%	—
Percent invoice	100%	—

*Source: Federal Reserve Board, G-19 Series; Average Values for December, 1992.

Tables in the appendix show that respondents did not differ markedly by size in their reports of loan maturities. About three-fifths of new-auto loans were for 49 to 60 months, with very little variation among lenders by size. Large respondents reported that 40 percent of their used-auto loans exceeded 48 months, a somewhat higher percentage than reported by the other groups of respondents.

Just over two-thirds of all respondents priced auto loans using simple interest; that is, an annual rate applied monthly to the declining unpaid principal balance outstanding since the last payment. Another fifth used both simple interest and the add-on or prepaid method of assessing finance charges, with the result that almost 90 percent of respondents were making some use of the simple-interest method. Of those using only simple interest, two-thirds charged fixed rates, while the other third used both fixed and variable rates for different portions of their financing. Risk-based finance charges, or "tiered pricing" was employed by only a third of respondents, with a few limiting the option to only new autos. Over four-fifths charged late fees.

Some differences appear in loan-pricing policies among respondents according to portfolio size (Exhibit 2.13). Medium respondents were most likely to use only simple interest. However, 94 percent of large respondents made some use of simple interest, although only 62 percent used this form of pricing exclusively. Banks with small portfolios adhered to fixed interest rates more than did those with larger portfolios. Medium respondents were more aggressive in using tiered pricing and late fees than respondents in the other size categories.

DEALER RELATIONS

One of the more sensitive area in banks' relations with dealers is the dealer reserves--the basis for calculation, when paid and when charged back. The most popular basis for calculation in 1992 was the contract rate less the retention or "buy rate.". About 44 percent of all respondents used this method, although large respondents used the ratio method more frequently than the contract rate less retention (Exhibit 2.14). Their use of the ratio method was much more common than among the other two groups of respondents. Flat fees have virtually disappeared from the market. Over four-fifths of all respondents (and 94 percent of large respondents) had reserve caps over the buy rate. The most frequent buy rates reported on new autos varied with the maturity of the loan, ranging from 7.91 percent on loans with maturities of 36 months or less to 8.10 percent on loans with maturities exceeding 60 percent.

EXHIBIT 2.14
Basis for Calculating Dealer Reserves
(Percentage Distribution*)

	Portfolio Size			
Method Used	*Small*	*Medium*	*Large*	*All*
Ratio method (percent of finance charge)	14.3%	13.2%	39.3%	21.8%
100 percent of contract rate less retention	42.9%	52.6%	32.1%	43.7%
Share of contract rate less retention	23.8%	13.2%	14.3%	16.1%
Percentage of contract rate less retention	14.3%	15.8%	7.1%	12.6%
Other	4.8%	5.3%	7.1%	5.8%
	100.0%	100.0%	100.0%	100.0%
Number of respondents	21	38	28	87

* Mean of respondents' percentages.

Apparently as a competitive tactic, small respondents were more likely than large ones to favor dealers by calculating dealer reserves as the spread between the contract rate and retention rate (42.9 percent vs. 32.1 percent) and to cap the reserve less frequently (71.4 percent vs. 94.1 percent). As we shall see below, this "dealer friendly" approach is consistent with their policies regarding restrictive contract terms.

About four-fifths of respondents paid dealer reserves up front. Just under two-thirds had holdback programs. Small respondents relied on a specific dollar amount more commonly than others, although the amount held back was significantly smaller than was the case with larger respondents. When the holdback was calculated as a percentage of the outstandings, large firms held back only 2.6 percent, compared with 7.0 percent among small respondents (Exhibit 2.15).

EXHIBIT 2.15
Dealer Reserve Holdback Programs

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Percent have a program	62%	62%	68%	64%
Percent using specific dollar amount	42%	23%	13%	23%
(average size)	$8,871	$1,950	$2,089	$1,775
Percent using percent of outstandings	33%	50%	30%	39%
(average percent)	7.00%	4.06%	2.59%	3.75%
Percent using both	25%	27%	57%	38%
Number of respondents	21	42	34	97

* Mean of respondents' percentages.

As shown in more detail in the appendix, almost all banks charged back the dealers reserve when loans were prepaid, but only 78 percent did so when the collateral was repossessed . Small respondents were least likely to charge back the reserve on a repossession (71 percent), compared with a frequency rate of about 80 percent for larger respondents. While few, if any, respondents commonly had repurchase or recourse arrangements with their dealers, 27 percent of all respondents used these terms from time to time, with 35 percent of the large firms imposing the arrangements.

Respondents were asked which of a variety of terms that they had successfully implemented with at least one quarter of their dealers. Totals are shown in Exhibit 2.16, with more detailed data by size of respondent available in the appendix. In general, banks with small portfolios were less likely to impose these terms. Possibly they were more lenient in this respect as a means of competing with larger competitors. For example, whereas 56 percent of large respondents imposed a charge for exceeding standard maturities, only 35 percent of small respondents did so. The most dramatic differences occurred in monitoring the charges by dealers for such products as credit insurance and extended warranties. Whereas 82 percent of large respondents limited such charges, only 40 percent of small dealers did so. Similarly, 59 percent of large respondents required approval of companies for which they financed such products, while only 30 percent of small respondents asked prior approval.

CREDIT QUALITY

Delinquency rates on indirect auto loans of commercial banks have been rising ever since 1985 (Exhibit 2.17). Delinquency rates on indirect auto loans of commercial banks and finance company auto loans have tracked very closely. Since the two types of lenders compete vigorously for dealer business, we would expect that they would be forced to accept very similar levels of credit risk. In response to the recent recovery in the economy, delinquencies on indirect auto loans by commercial banks have declined. As a percentage of the number of loans outstanding, indirect auto loans more than 30 days past due fell

from a peak of 2.95 percent in August, 1991, to 2.33 percent at the end of 1992. Similar declines are observable in the data gathered for the 1991 and 1992 CBA surveys, although the data are not directly comparable because of differences in the number of banks reporting their data and their ability to separate new-auto loans from used-auto loans.

Whereas small respondents had higher aggregate delinquency rates than large banks last year, whether calculated on the basis of the number of accounts outstanding or by dollar amounts outstanding, such was not the case this year. Calculated on the basis of the number of loans outstanding, small banks had lower delinquency rates (2.01 percent) than medium or large respondents, whose delinquency rates were 2.12 percent and 2.82 percent respectively (Exhibit 2.18). The higher delinquency rates of large respondents are consistent with their higher rate of conversion of applications into loans booked shown earlier in Exhibit 2.6. It should be noted, however, that the higher rate of total delinquencies of large respondents is almost entirely attributable to delinquencies of less than 60 days. Their over-60-days delinquencies amounted to 36 percent of their under-60-days delinquencies, contrasted with a similar figure of 51 percent for small respondents and 43 percent for medium respondents.

EXHIBIT 2.18
Delinquencies
Percentage of Number of Loans*

	Portfolio Size			
Time Past Due	*Small*	*Medium*	*Large*	*All*
31 to 59 days	1.33	1.48	2.08	1.66
60 to 89 days	.36	.36	.44	.38
90+ days	.32	.28	.30	.30
Total	2.01	2.12	2.82	2.33
Number of respondents	10	23	15	48

*Banks reporting combined new and used delinquencies.

When calculations are based on the dollar amount of outstandings, medium respondents performed slightly better than small respondents in 1992 (Exhibit 2.19). Whichever way delinquency rates are calculated, it is hazardous to make too much of these data, since differences may be explained by variations in the portions of new-auto and used-auto loans in portfolios. Sixty-four percent of respondents did not segregate these two types of loans in reporting their delinquency experience to CRC.

EXHIBIT 2.19
Delinquencies
Percent of Dollars Outstanding*

Time Past Due	*Portfolio Size*			
	Small	*Medium*	*Large*	*All*
31 to 59 days	1.04%	1.03%	2.01%	1.36%
60 to 89 days	.29%	.24%	.42%	.31%
90+ days	.35%	.24%	.29%	.27%
Total	1.68%	1.51%	2.72%	1.94%
Number of respondents	10	23	15	48

*Banks reporting combined new and used delinquencies.

The importance of segregating new- and used-auto paper is illustrated in Exhibit 2.20, where delinquency data from a sample of 27 respondents are displayed. Based on number of loans outstanding, total delinquency rates are 79 basis points, or 37 percent higher on used autos than new autos. Based on the dollar amount of loans outstanding, total delinquency rates are 59 basis points, or 33 percent higher on used autos than on new autos.

EXHIBIT 2.20
Delinquencies
New and Used Auto Loans*

	Time Past Due			
	31-59 Days	*60-89 Days*	*90+ Days*	*Total*
Percent of number of loans				
New	1.50%	0.37%	0.28%	2.15%
Used	1.98%	0.58%	0.38%	2.94%
Percent of Dollars Outstandings				
New	1.25%	0.31%	0.25%	1.81%
Used	1.65%	0.47%	0.28%	2.40%

*Means of respondents' percentages for the 27 firms that separated new and used percentages.

The national rate of consumer bankruptcies slowed considerably in 1992. Whereas nonbusiness filings rose 21.5 percent from 1990 to 1991, the increase from 1991 to 1992 was only 3.26 percent. However, individual respondents' experience in 1992 may have differed greatly from the national average. Banks financing autos in the northern district of New York faced a 26.0 percent growth in bankruptcies in the district. Other notable increases in bankruptcy rates were in Delaware, 24.8 percent and the central district of California, 23.2 percent. On the bright side were *decreases* in filings from 1991 to 1992 in the middle district of North Carolina (-16.1 percent), Wyoming (-15.3 percent), western district of North Carolina (-14.9 percent), and the middle district of Alabama (-14.3 percent).

The experience of respondents with consumer bankruptcies is summarized in Exhibit 2.21. The proportion of bankruptcy losses to gross charge-offs is much the same among banks with portfolios of different sizes. The proportion of bankruptcy filings in 1992 that were under Chapter 7 mirrored the national level of 71.4 percent.

EXHIBIT 2.21
Charge-offs from Bankruptcy

	Portfolio Size				
Time Past Due	*Small*	*Medium*	*Large*	*All*	*Number of Respondents*
Mean number of bankruptcies	69	341	1,610	793	73
Bankruptcy dollar losses (Percentage of gross charge-offs)	18%	22%	25%	22%	60

The data in Exhibit 2.22 indicate that respondents became more aggressive in 1992 in challenging bankruptcies and in achieving success in those challenges. As shown in the appendix, there were rather marked differences among banks grouped by size of portfolios in the pursuit and the rate of success in those pursuits. The variations in success may be illustrated by assuming the following the paths of challenges on 100 bankruptcies by banks having small (S), medium (M) and large (L) portfolios of auto loans:

Portfolio Size	*Number of Bankruptcies*	*Number Challenged*	*Success Rate*	*Successful Challenges*
S	100	25	0.33	8
M	100	26	0.54	14
L	100	30	0.61	18

The differences in the number of successful challenges per 100 filings appear to rest mainly on the success rate of the challenge. Presumably, the variation depends upon the selection of cases with a high probability of success and skilled pursuit of the case.

Only 25 respondents segregated new and used repossessions (Exhibit 2.23). As one would expect, the repossession rate on used autos was significantly higher than on new autos. The result is consistent with the higher delinquency rates on used vs. new autos shown in Exhibit 2.20. The difference also justifies the significantly higher finance rates typical of used-auto loans. It is also worth noting that, while large respondents had significantly higher delinquency rates than smaller respondents (Exhibit 2.18), their repossession rates were not that much higher than those experienced by smaller respondents. Indeed, their repossession rate on used autos was almost the same as the rates reported by small and medium respondents. The comparisons cannot be pressed too far, however, because of differences in the sample bases used.

EXHIBIT 2.23
Repossessions, 1992

*Mean number of autos repossessed**	*Portfolio Size*			
	Small	*Medium*	*Large*	*All*
New number	51	268	1,078	457
Percent of new accounts	2.04%	1.66%	2.21%	1.92%
Used number	47	174	914	363
Percent of used accounts	2.34%	3.28%	2.31%	2.77%
Total number	98	442	1,992	820
Number of respondents**	5	12	8	25

*Means of respondents' percentages.
**Number who separated new vs. used repossessions.

Average gross and net dollar losses on repossessions of new and used autos for respondents grouped by size are shown in Exhibit 2.24. (Data on costs of repossession may be found in the appendix.) Differences in size of respondents obviously explain the much larger average (mean) loss reported by large respondents on both new and used autos. Small respondents appear to be more efficient in recovering a portion of the gross loss than larger respondents. This apparent efficiency may result from more caution in loan-to value requirements when loans were made or by more efficient disposal of the repossessed vehicle.

EXHIBIT 2.24
Gross and Net Dollar Losses
New Repossessions
(Mean values in 000's)

	Gross Loss	*Recovery Rate**	*Net Loss*
Small	$354	58.2%	$148
Medium	$1,318	42.8%	$754
Large	$7,275	41.2%	$4,276
All	$2,268	42.1%	$1,313

*Difference between mean gross and net losses, divided by mean gross loss.

EXHIBIT 2.25
Used Repossessions
(Mean values in 000's)

	Gross Loss	*Recovery Rate**	*Net Loss*
Small	$225	45.3%	$123
Medium	$645	45.0%	$355
Large	$1,816	21.8%	$1,420
All	$942	39.2%	$573

*Difference between mean gross and net losses, divided by mean gross loss.

While the data are not strictly comparable with the results from last year's survey, they do suggest that net losses as a percentage of outstandings were less in 1992 than in 1992--perhaps in the range of 25 basis points. In spite of their higher acceptance rates, booking rates and delinquency rates, large respondents reported total net losses as a percentage of dollar amounts of loans outstanding that was about the same as the percentage reported by small respondents and 16 basis points above the level reported by medium respondents. Limited data suggest that large respondents had significantly better experience than others on used-auto loans. Overall, however, medium respondents seemed to have had better control of credit losses than other respondents.

Exhibit 2.26
Net Losses, 1992

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
New autos: net loss as percentage of dollars outstandings	.78%	.80%	.85%	.82%
Number of respondents	2	7	7	16
Used auto: net loss as percentage of dollars outstandings	1.7%	1.4%	.85%	1.2%
Number of respondents	3	7	7	17
Total: net loss as percentage of dollars outstanding*	.94%	.76%	.92%	.86%
Number of respondents	11	23	25	59

*Includes 42 respondents who did not report new and used losses separately.

CONCLUSIONS

The indirect loan business improved considerably during 1992 in relation to the previous year. Volume was up and delinquencies, credit losses and, probably bankruptcies, were down as a percentage of outstandings. (Some caution needs to be applied here, since the rise in outstandings increases the base for calculating the percentages of delinquencies and losses). The data also reveal some economies of being large. In general, large respondents could process more loan applications per day and (for whatever reason) managed to convert more applications into loans than smaller respondents. Also, they were significantly more successful in challenging bankruptcy filings, a practice that had some influence in reducing their net credit losses. Many respondents reveal a movement towards improved risk managing through more credit scoring and possibly tiered pricing arrangements to reflect the risk of the applicants.

Exhibit 2.2

Changes in Total Auto Lending, 1991 to 1992 (Percentage Change)

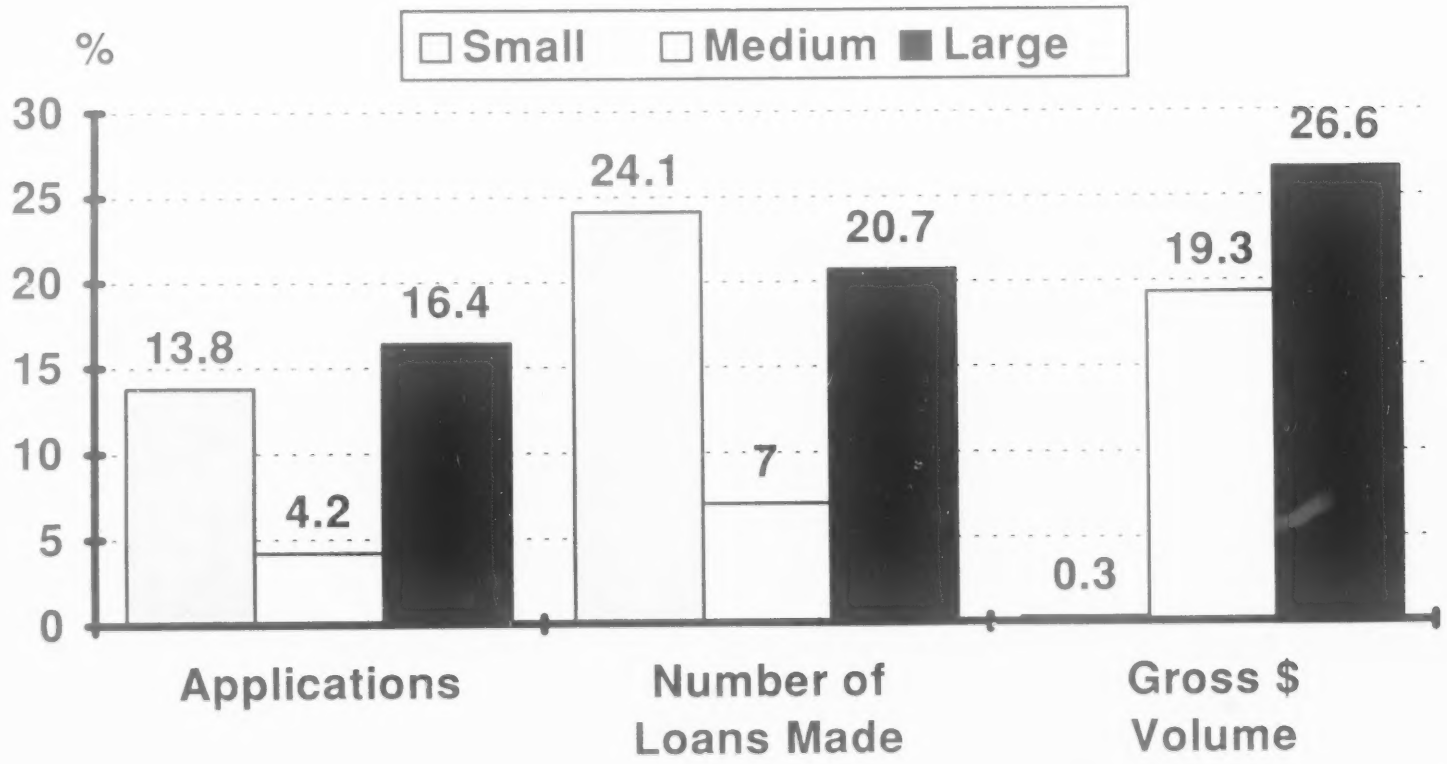


Exhibit 2.4

Application Approval Rate, 1992 vs. 1991

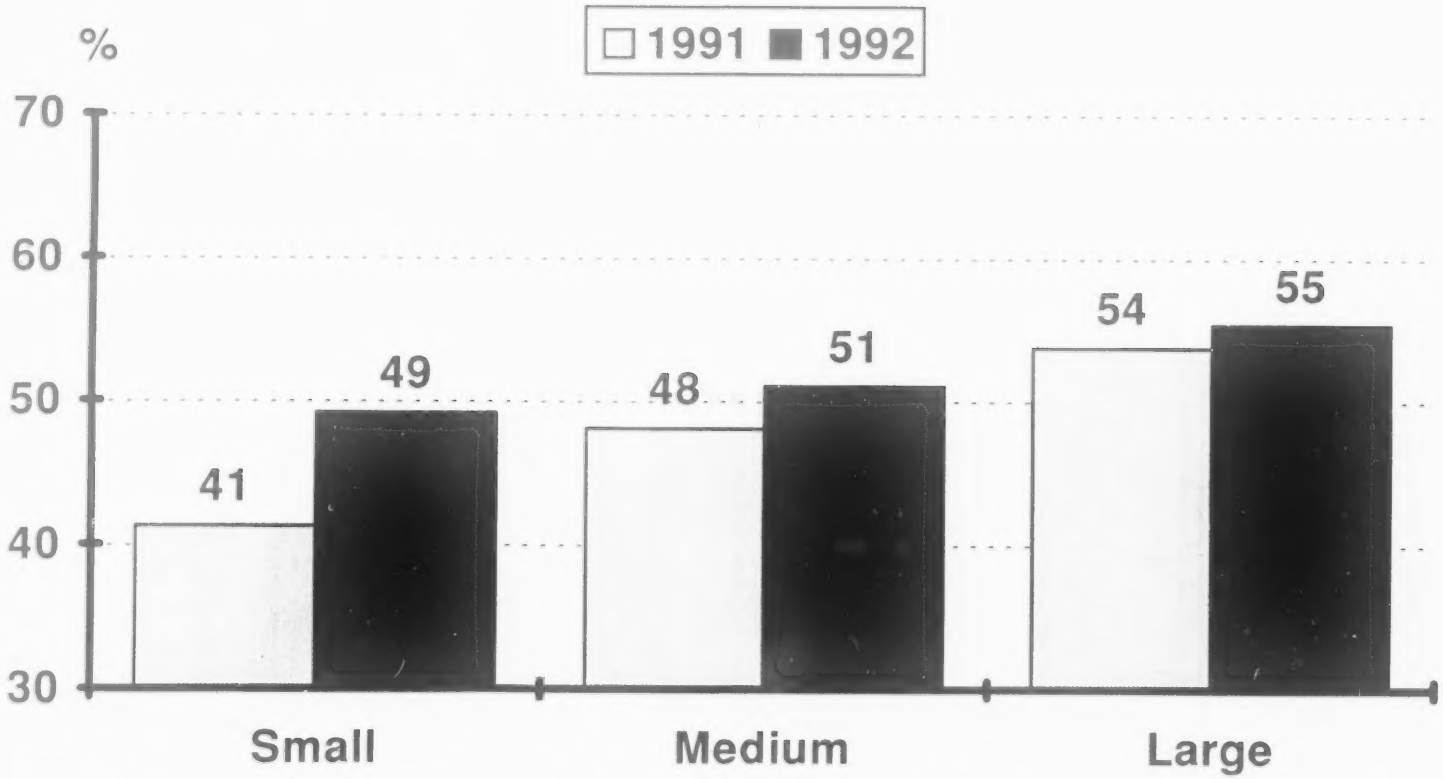


Exhibit 2.5

Approval Booking Rate, 1992 vs. 1991

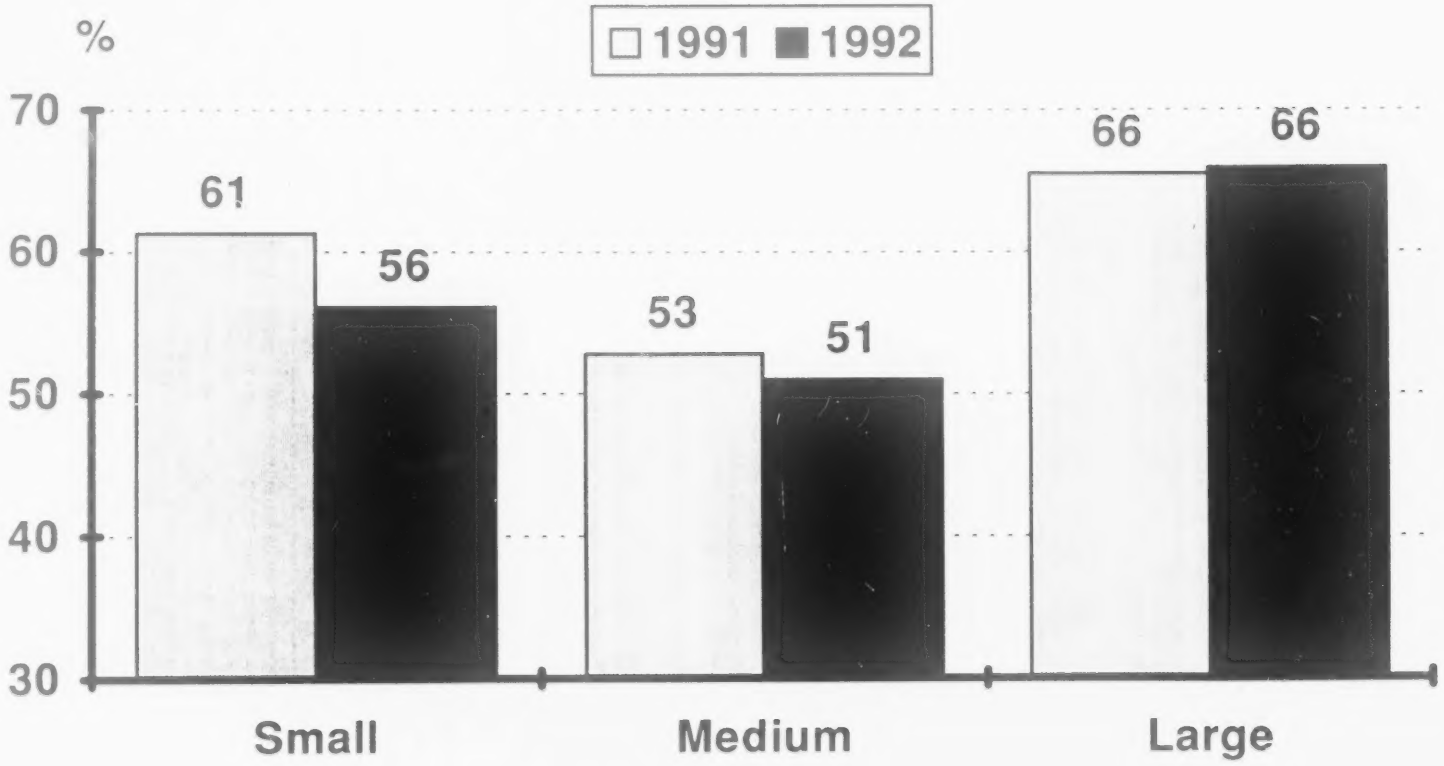


Exhibit 2.6

Application Booking Rate, 1991 vs. 1992

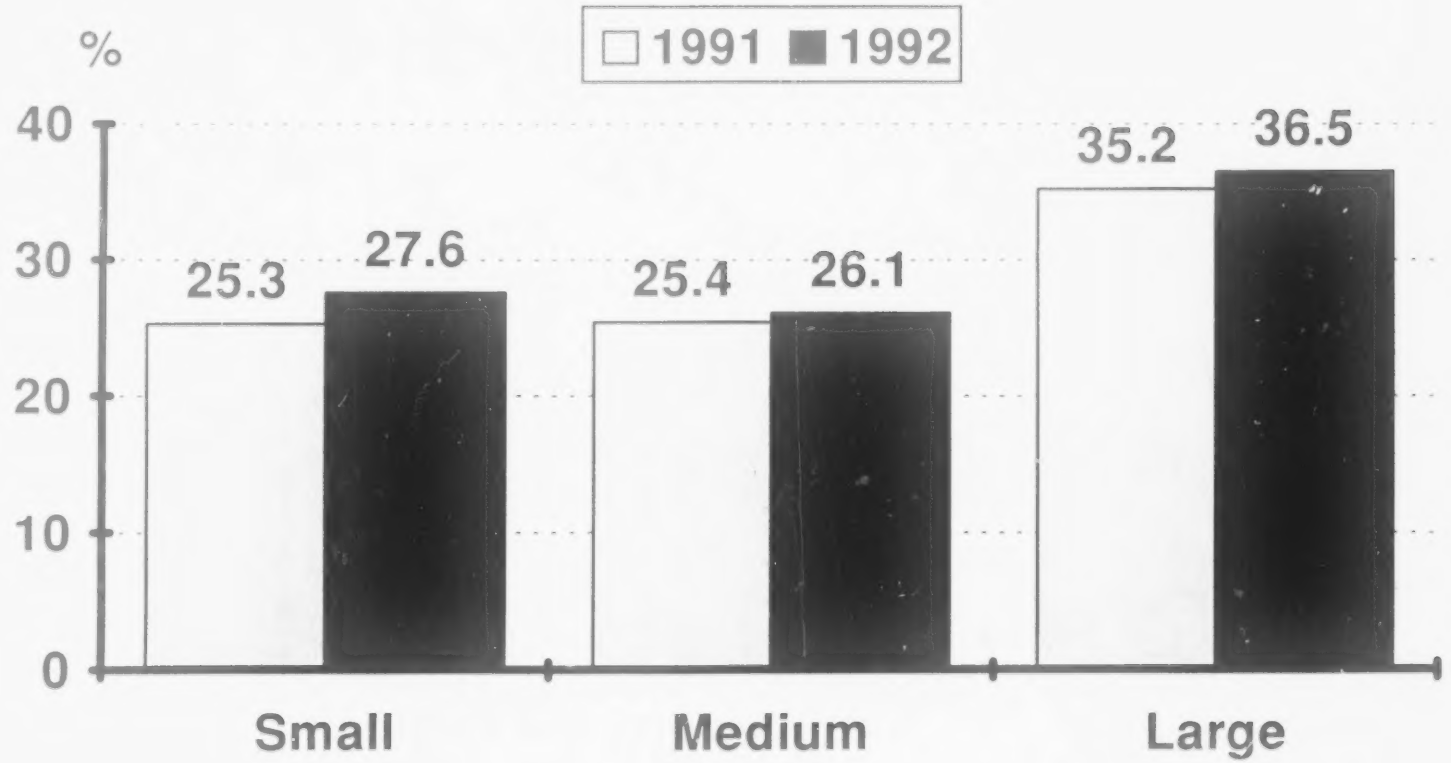


Exhibit 2.7

Indirect Loan Average Processing Time, 1992

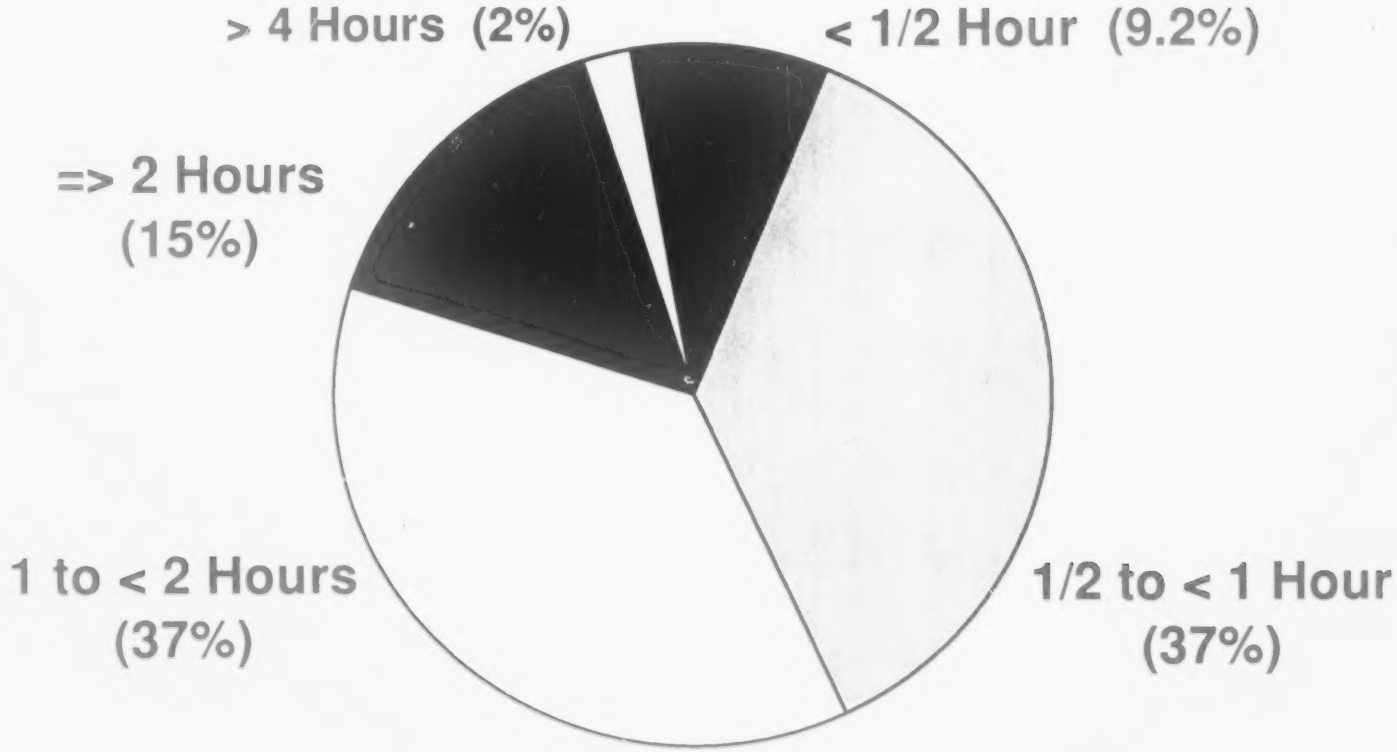


Exhibit 2.8

Indirect Loan Average Processing Time by Portfolio Size

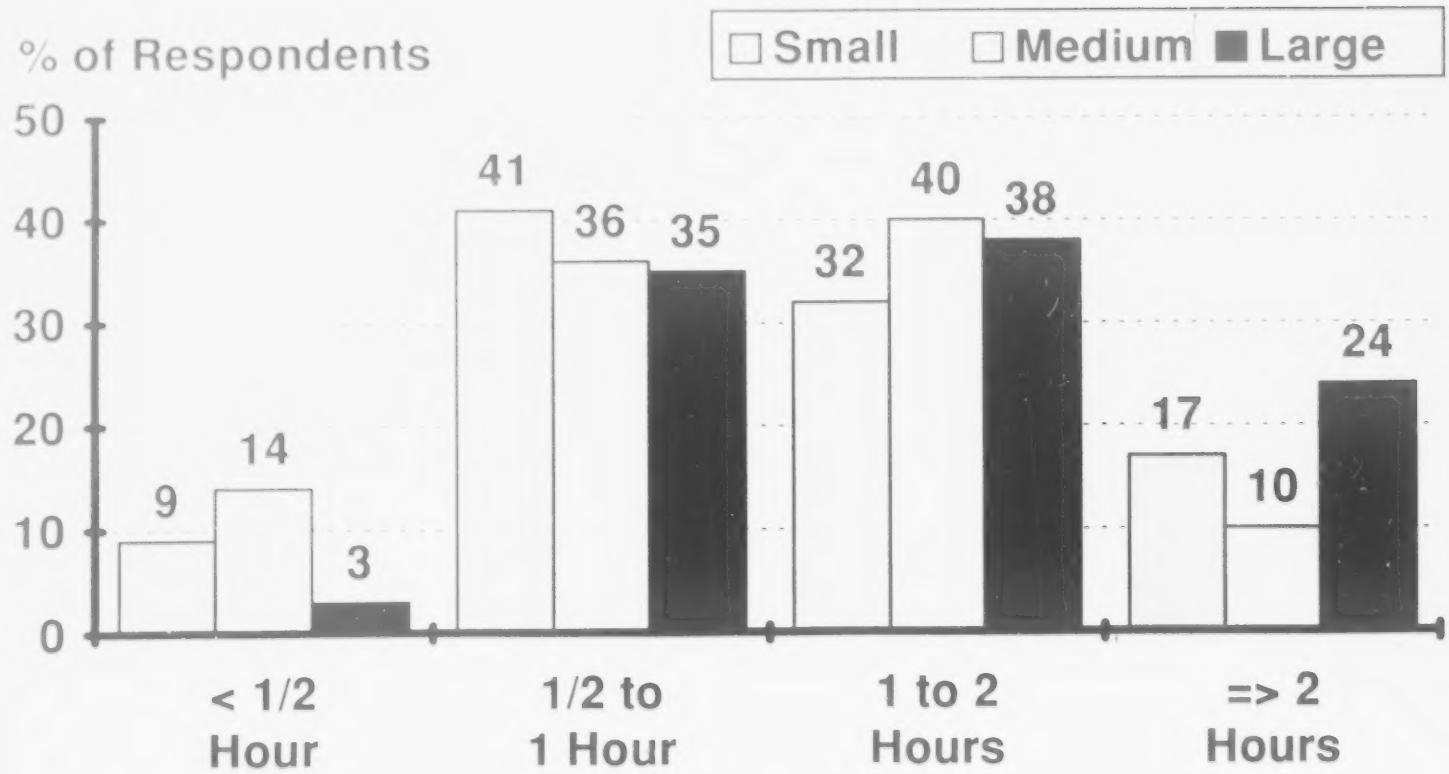


Exhibit 2.9

Use of Processing Technology (by Portfolio Size)

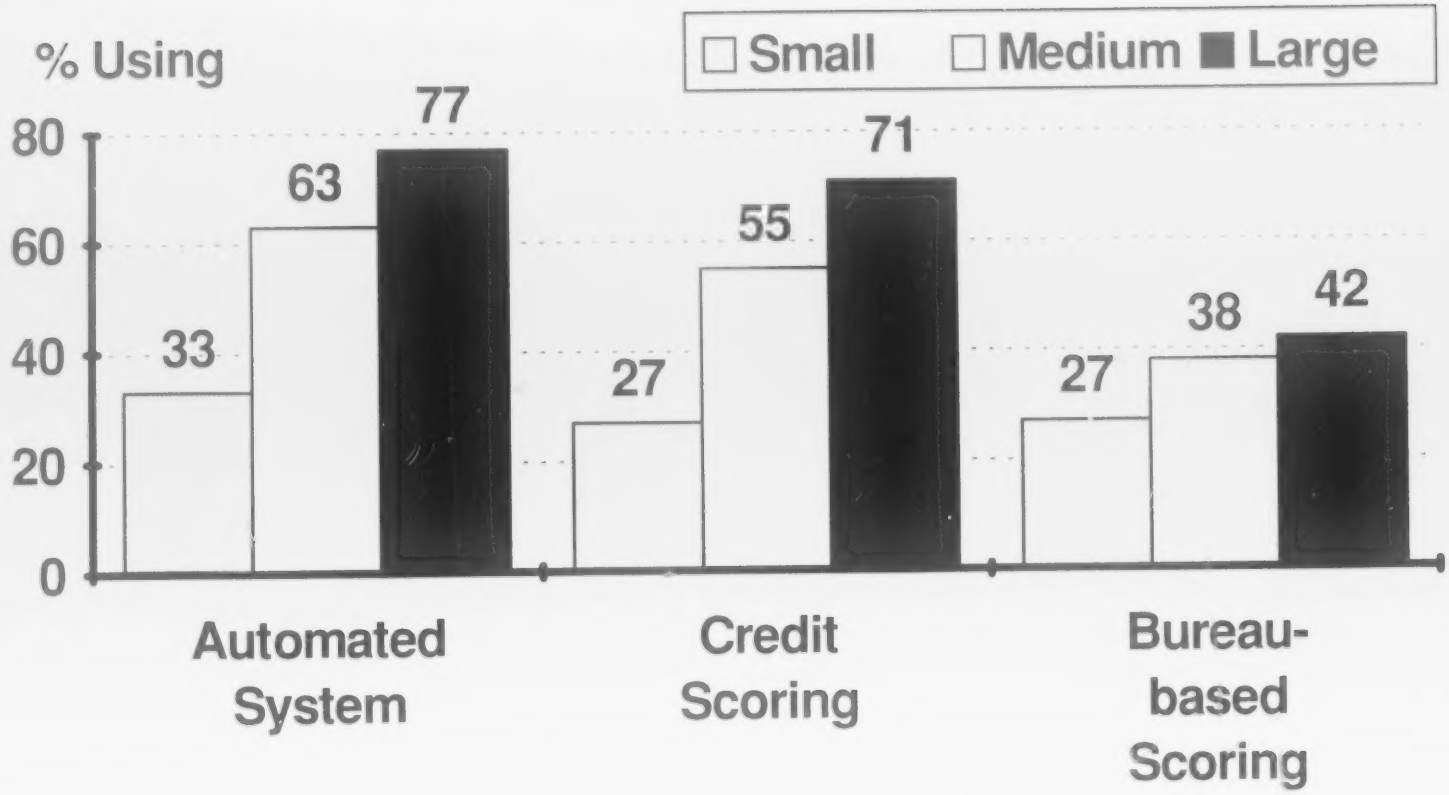


Exhibit 2.13

Loan Pricing by Portfolio Size

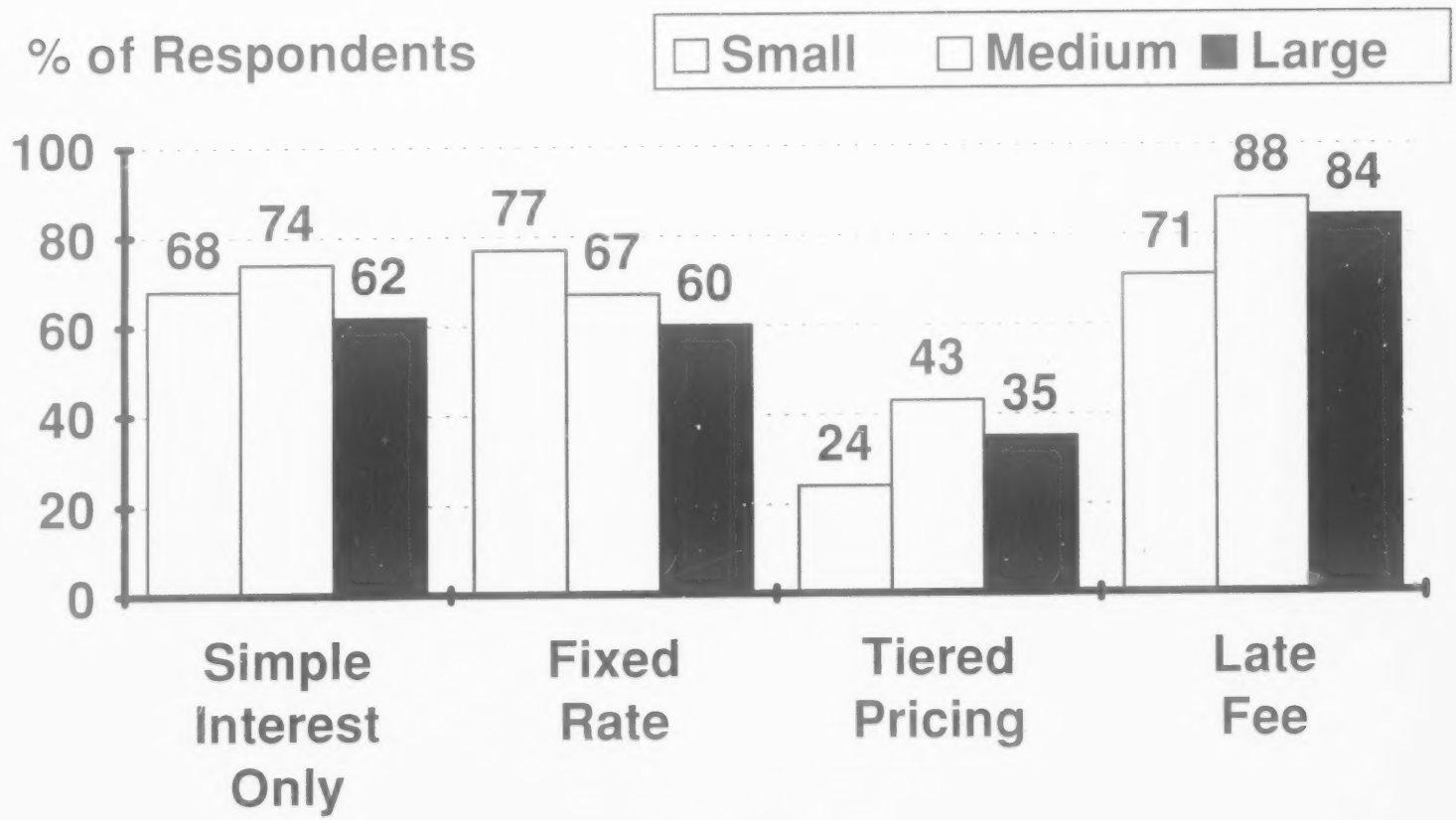


Exhibit 2.16

Use of Selected Contractual Features (Programs with at Least 25% of Dealers)

Exhibit 2.17

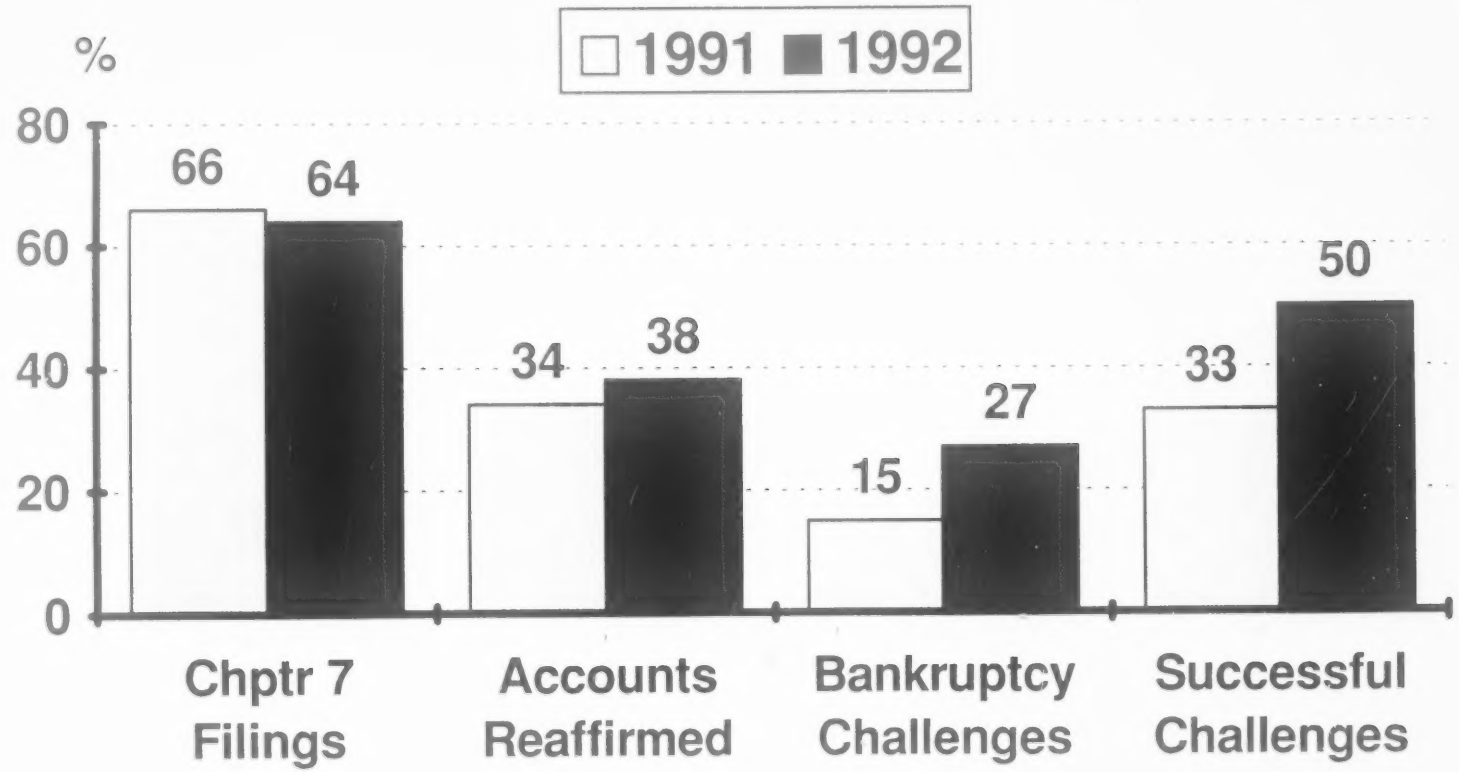
Delinquency Rate for Automobile Credit

(Percent of Loans 30+ Days Past Due, Seasonally Adjusted)

Source: ABA; Federal Reserve Board

Exhibit 2.22

Bankruptcy Experience
(Full Sample, % of Bankruptcies)



WHOLESALE/FLOORPLAN FINANCE

OVERVIEW OF SAMPLE

The analysis in this section is based upon data provided by 59 respondents, with response levels varying among the questions asked. Not all banks that were involved in indirect auto financing also provided wholesale financing to their dealers. Among the 22 small respondents, only 27 percent provided wholesale financing, whereas 82 percent of the 34 large respondents did so. Also, the average experience of small respondents in floorplanning was 14 years, compared with over 25 years for the medium and large respondents.

Almost three-fourths of respondents were able to segregate their data according to new and used units, although fewer were involved in floorplanning used autos. The median number of new autos floorplanned by respondents was over 11 times the median number of used autos floorplanned (Exhibits 3.1 and 3.2). Calculations from data in these exhibits show that the mean dollar investment in new autos was highest for small respondents (S = $16,861) vs. medium and large respondents (M = $13,705); L = $16,647). However, the sample of only 5 small respondents is too small to place great reliance on that value. The average investment per unit in used autos increased with the size of the respondent: S = $5,397; M = $8629; and L = $10,803.

EXHIBIT 3.1
Floorplanning Portfolios for New Autos
Number of Units Financed and Dollars Outstanding

	Portfolio Size			
Number of Units	*Small*	*Medium*	*Large*	*All*
Median	99	1,362	6,473	3,008
Mean	144	3,060	7,507	4,859
Number of Respondents	4	16	18	38
Dollars Outstanding				
Median (000's)	1,313	19,431	106,368	36,665
Mean (000's)	2,428	41,936	124,967	74,534
Number of Respondents	4	19	18	41

EXHIBIT 3.2
Floorplanning Portfolios for Used Autos
Number of Units Financed and Dollars Outstanding

	Portfolio Size			
Number of Units	*Small*	*Medium*	*Large*	*All*
Median	28	226	721	259
Mean	73	275	917	584
Number of Respondents	5	9	16	30
Dollars Outstanding				
Median (000's)	$132	$1,885	$5,264	$2,287
Mean (000's)	$394	$2,373	$9,906	$5,333
Number of Respondents	5	12	16	33

Varying numbers of medium and large respondents were able to report the number of units and dollar amounts of outstandings for both 1991 and 1992 (Exhibit 3.3). There was a slight decline in the average number of new autos financed, but a significant increase in the number of used autos floorplanned by medium respondents. Calculations based on data in the appendix indicate that among large respondents, the average price of new autos floorplanned rose five percent and of used autos, seven percent.

As would be expected, large respondents had many more floorplanning and retail relationships that small and medium respondents (Exhibit 3.4). Medium respondents provided wholesale financing to about a fourth of its retail relationships, whereas large respondents financed a sixth of their retail dealers. It seems likely that there are some economies of scale in managing dealer relationships that can be realized by servicing a large number.

EXHIBIT 3.4
Floorplanning and Retail Relationships

	Portfolio Size			
Floorplanning Relationships	*Small*	*Medium*	*Large*	*All*
Median Number of Dealers	3	25	82	34
Mean Number of Dealers	3	25	114	60
Retail Relationships				
Median Number of Dealers	43	48	350	178
Mean Number of Dealers	86	99	685	379

FINANCING TERMS

Respondents were asked to report their "average gross yield (expressed in basis points) over the prime rate" on new and used auto floorplanning. The prime rate moved down from 6.5 percent during the first half of 1992 to 6.0 percent during the second half. Given the higher risk of floorplanning used cars, it appears that increments would be

higher for used autos than new autos. As shown in Exhibit 3.5, the basis points added for used-auto floorplanning were more than twice the level for new autos. However, there are not major differences in policies among respondents of different size. The market seems to have driven rates closer together than was true last year.

In addition, about 36 percent of medium and large respondents also charged a flat fee on new floored units, although only a sixth of small respondents did so. The fee averaged $3.30 and was levied on a one-time basis about three-fifths of the time, with the rest of the respondents generally assessing it monthly. Only medium and large respondents levied a flat fee when floorplanning used units: about 47 percent of the respondents did so, most frequently on a one-time basis. The fee on used units averaged about $5.40.

Whereas last year some respondents reported a willingness to finance more than 100 percent of the auction price of program autos, none did so this year. Over four-fifths financed 90 percent to 100 percent, with the remainder being more cautious.

Floorplan rates might be modified by the extent of retail penetration; that is, the portion of wholesale contracts that are replaced by retail contracts held by the bank. Of those responding to the question addressing this issue, about one-fifth required a right of first refusal on retail contracts, and about a fourth adjusted the floorplan rate to reflect their retail penetration (Exhibit 3.6). Small respondents were much less aggressive in seeking retail penetration that were larger respondents. Generally, the portion of wholesale contracts successfully converted to retail contracts appeared to increase with the size of the respondent. Even among large respondents, just over a third of wholesale contracts were converted into retail contracts. This penetration rate suggests the intense competition banks face in acquiring retail paper. Wholesale financing does not provide a lock on dealers' retail paper.

EXHIBIT 3.6
Conversion of Floorplanned Units to Consumer Loans

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Right of First Refusal on Financing*	16.7%	15.4%	24.0%	19.3%
Number of Respondents	6	26	25	57
Reward for Retail Penetration*	0%	22.2%	36.0%	25.9%
Number of Respondents	6	27	25	58
Number Which Became Retail Loans	13.3%	28.5%	34.6%	29.9%
Number of Respondents	3	11	14	28

*Percentage of respondents.

Another way of attracting floorplanning customers is to offer various types of insurance to dealers. Last year's survey revealed that only floorplan insurance had many supporters. Consequently, questions relating to other types of insurance were dropped from this year's survey. None of the small respondents offered floorplan insurance. But, 18 percent of medium respondents and 60 percent of large respondents offered this insurance to dealers.

OPERATING PRACTICES

Most of the operating practices relating to floorplanning are designed to protect banks from two types of risk:

- Market risk. Autos lose value as they remain in inventory, either because the individual unit does not sell or because newer models have entered or are about the enter the market.

- Fraud risk. Dealers may sell autos, but fail to remit the appropriate payment to the bank. These are SOT (sold out of trust) and can generate losses that eliminate months of profits.

Market Risk

Neither dealers nor those financing their inventories want autos to remain in inventory for long periods of time. Average days in stock for new and used autos are shown in Exhibit 3.7. The number of small respondents reporting was too few to calculate meaningful averages. Even among the larger respondents, two reported average days-in-stock exceeding a year for new autos and one reported average days in inventory exceeding a year for used autos. In any case, used autos clearly have a higher turnover rate than do new autos, and large respondents appear more successful in financing a faster turnover than medium-sized respondents. While the samples are not directly comparable, the average days that autos remained in floorplan appear to have increased significantly from 1991 to 1992.

If an auto has remained in a dealer's inventory for "too long," the bank providing wholesale financing will ask for curtailment; that, is a series of partial payments to reduce the amount of the loan to offset the likely decline in the market value of the unit financed. Except for one small respondent, all respondents reported requiring curtailments. Respondents probably found it difficult to answer questions regarding curtailment, since many relate their policies to the model year. The closer to the time of a model change-over, the shorter the period before curtailment is commenced and the period within which the balance had to be paid. In general, curtailment began within less than 12 months on new autos and within five to six months on used autos (Exhibit 3.8). The differential is understandable in view of the higher market risk of used autos. Curtailment policy regarding demonstrators was very similar to that for used autos, since the collateral is, of course, used. Except for demonstrators, the average period over which the balance was to be paid in full *once curtailment had begun* was about four months. However, the range was probably quite wide. One floorplanning manager consulted indicated that the curtailment period might range from three to nine months, depending upon how soon the model change-over would occur. Once curtailment was started, dealers were apparently given as long as six months to pay off the balance owed on demonstrators.

EXHIBIT 3.8
Use of Curtailment
(Mean Values)

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
New Autos				
Number of Months before Curtailment	6.0	11.9	11.8	11.6
Percent of Balance to be Paid Thereafter	6.7%	9.0%	7.7%	8.2%
Payments to be paid every ___ month	1.7	2.1	1.8	1.9
Number of Months within which Balance Must be Paid	12.0	14.2	14.8	14.4
Number of Respondents	3	22	21	48
Used Autos				
Number of Months before Curtailment	3.0	5.8	3.3	4.5
Percent of Balance to be Paid Thereafter	17.7%	9.3%	9.9%	10.2%
Payments to be paid every ___ month	3.0	1.7	1.4	1.6
Number of Months within which Balance Must be Paid	8.3	7.4	6.5	7.1
Number of Respondents	3	21	20	44
Demonstrators				
Number of Months before Curtailment	*	6.6	3.3	4.6
Percent of Balance to be Paid Thereafter	*	3.9%	5.8%	4.9%
Payments to be paid every ___ month	*	1.2	1.7	1.5
Number of Months within which Balance Must be Paid	*	13.2	13.5	13.3
Number of Respondents	*	15	21	34

*Insufficient number of responses to report.

Fraud Risk

In general, large respondents reported "policing" their dealers more closely than did medium and small dealers. Whereas 73 percent of medium respondents and 50 percent of small respondents reported that they had a financing policy to put dealers on finance hold, 92 percent of large respondents had such a policy.

Once a dealer sells an auto, he is expected to remit promptly to the bank the balance owed. Large respondents were again more rigorous than medium respondents, as can be seen in Exhibit 3.9. Almost a fourth of the large respondents allowed only one or two business days to pass before payment was required—three times the frequency of medium respondents.

One way of guarding against a dealer's selling autos SOT is to check inventory at random and unannounced times. None of the six small respondents reported requiring floorplan audits more than once a month, but when they did make audits, two-thirds

reconciled the audit against the factory statement (Exhibit 3.10). In fact, essentially all respondents did inspect and verify dealers' inventories, although usually not more frequently than once a month (Exhibit 3.11). The popularity of other operating procedures to guard against fraud are summarized by size of respondent in Exhibits 3.11 and 3.12.

LOSS EXPERIENCE

Not unexpectedly, these efforts did not eliminate fraud and bankruptcy losses. About a third of small and medium respondents and about half of large respondents reported floorplan liquidations during 1992.

Respondents also reported their losses as a percentage of outstandings in floorplanning (Exhibit 3.13). Loss ratios turned up sharply in 1990, and grew each year through 1991. However, in 1992, the average loss ratio fell for medium respondents, but rose again for large ones. However, one of the large respondents either had an extraordinarily bad year or mis-reported its loss ratio. Elimination of that one loss ratio would have cut the average of losses for large respondents to 0.16 percent of outstandings.

EXHIBIT 3.13
Net Losses as a Percentage of Outstandings
(Mean of Respondents' Percentages)

	Portfolio Size		
	Medium	*Large*	*All*
1988	0.03%	0.05%	0.04%
1989	0.07%	0.25%	0.14%
1990	0.59%	0.31%	0.40%
1991	0.61%	0.52%	0.51%
1992	0.28%	0.61%	0.39%

CONCLUSION

Wholesale financing is a low-margin activity. Profitability depends heavily on controlling market risk and fraud risk. In addition, there are probably some economies of scale in the costs of controlling risk. Just as risk-based pricing is creeping into the indirect financing of autos, so may it spread to floorplanning. Loss ratios have improved significantly from 1991 to 1992, and the rapid current growth in auto sales bodes well for 1993.

Exhibit 3.3

Change in Floorplanning Portfolios, 1991 to 1992
Number of Units Financed

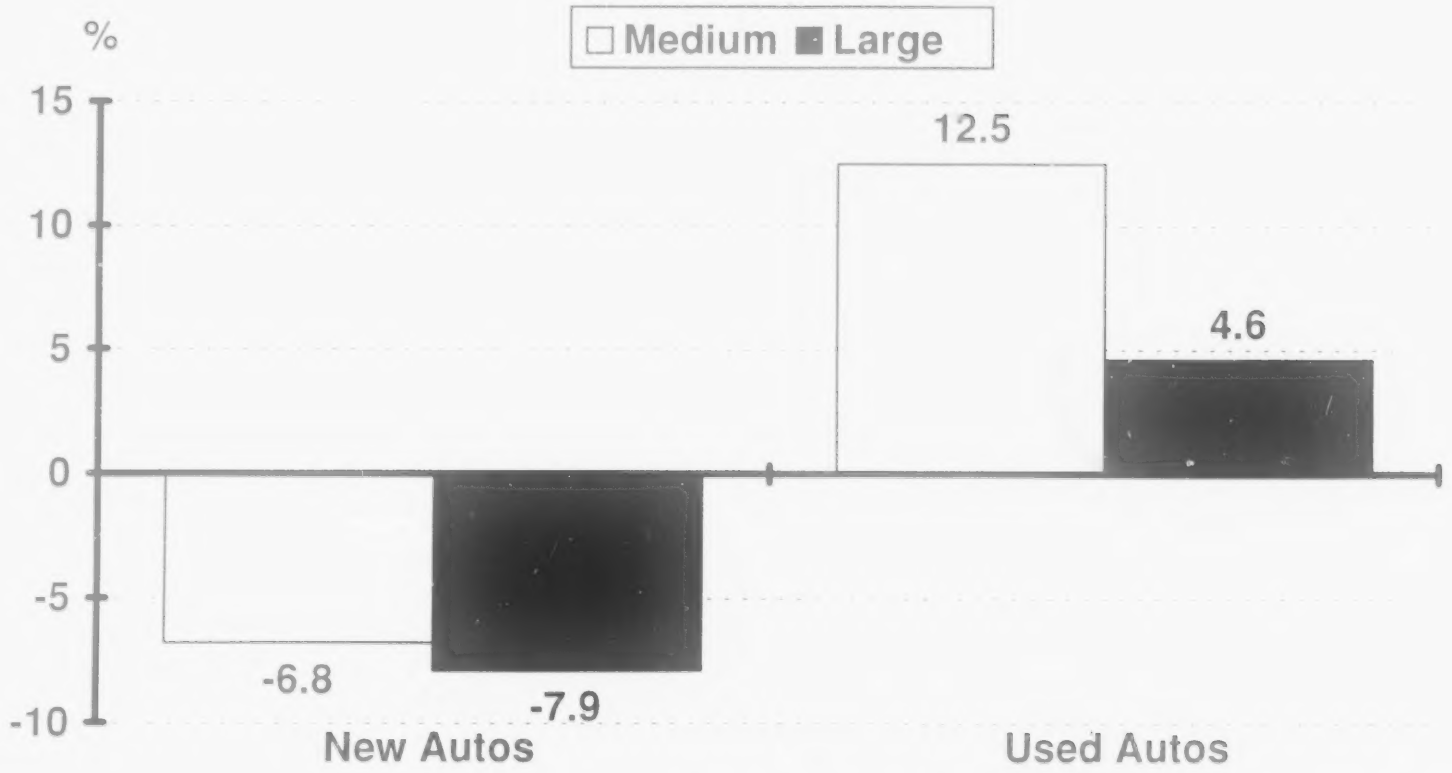


Exhibit 3.4
Change in Floorplanning Portfolios, 1991 to 1992
Dollars Outstanding

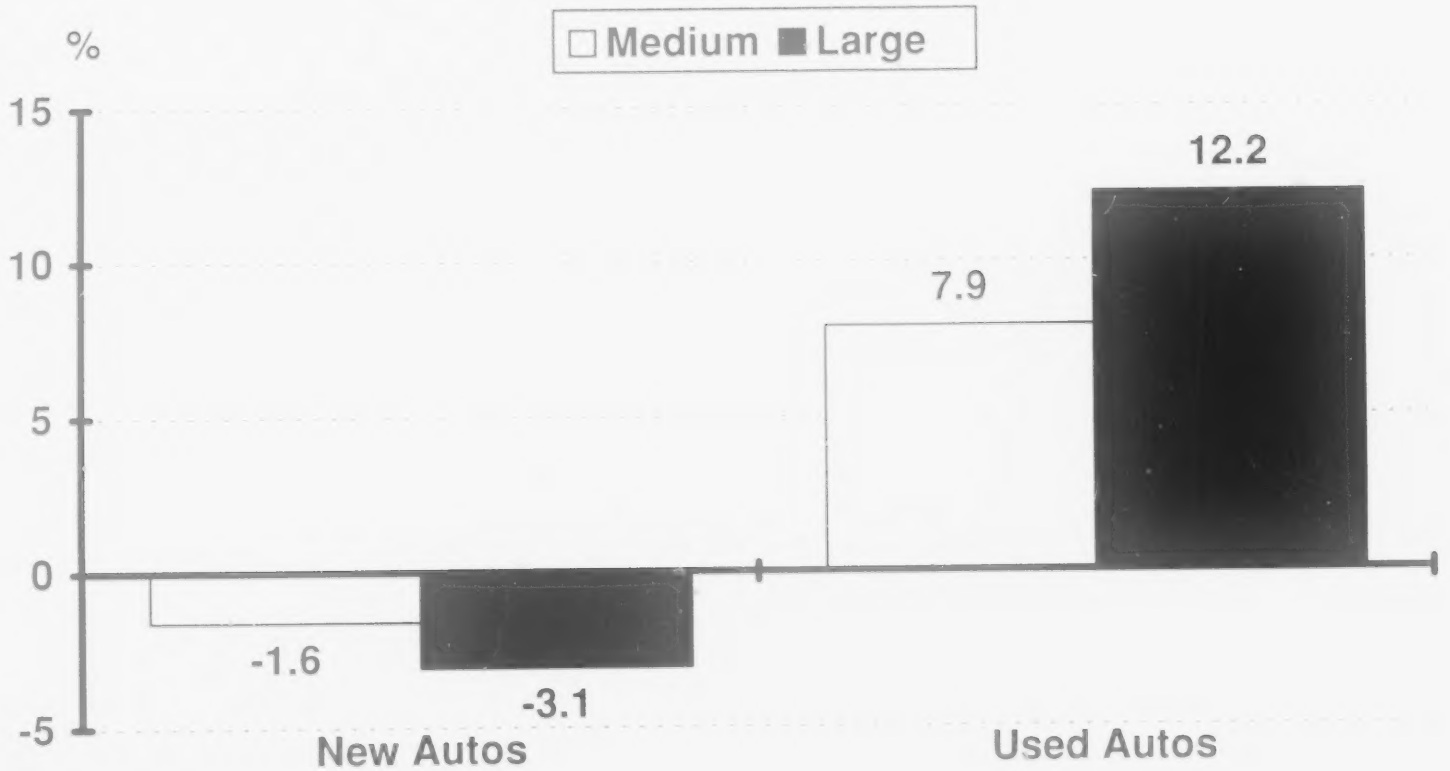


Exhibit 3.5

Basis Points Added to Prime Rate

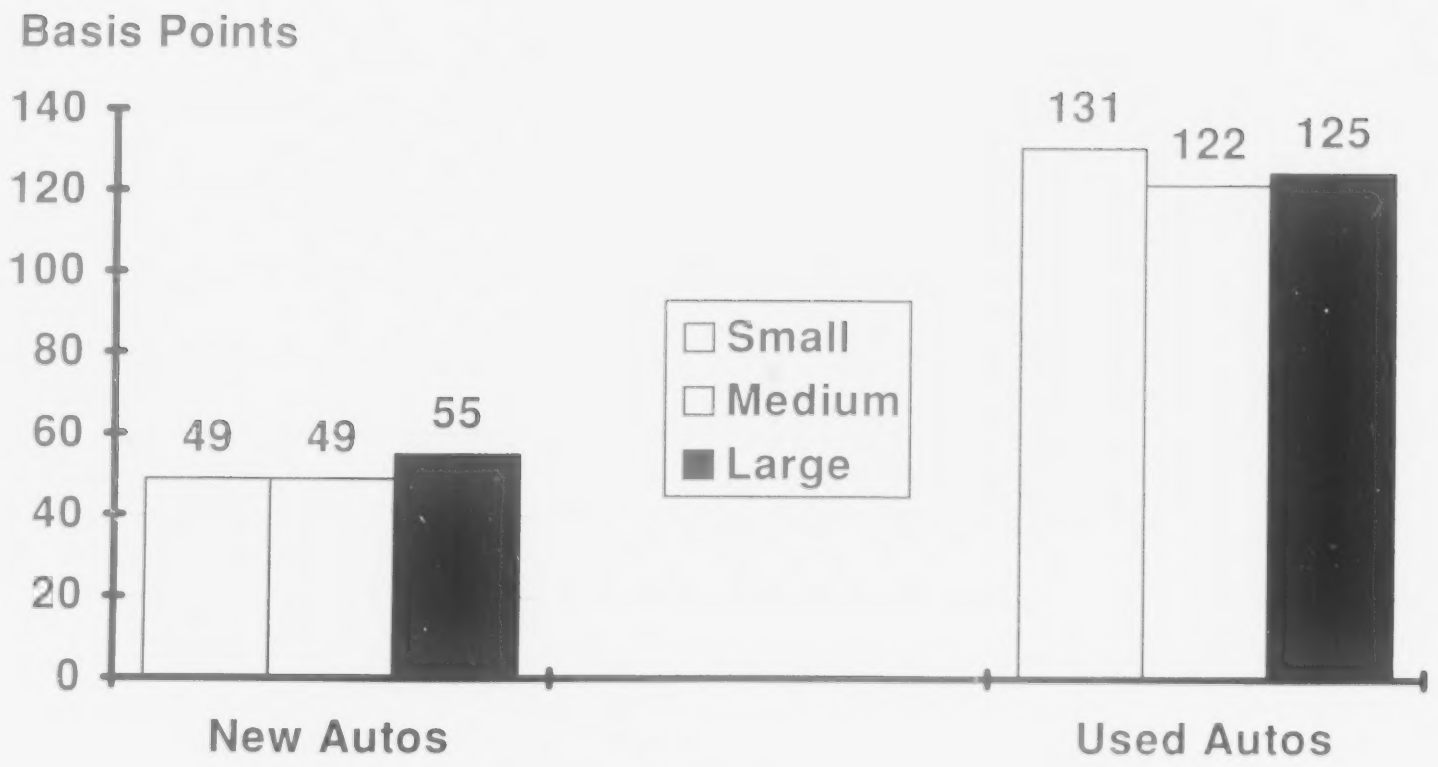


Exhibit 3.7

Days That Auto Remains in Floorplan

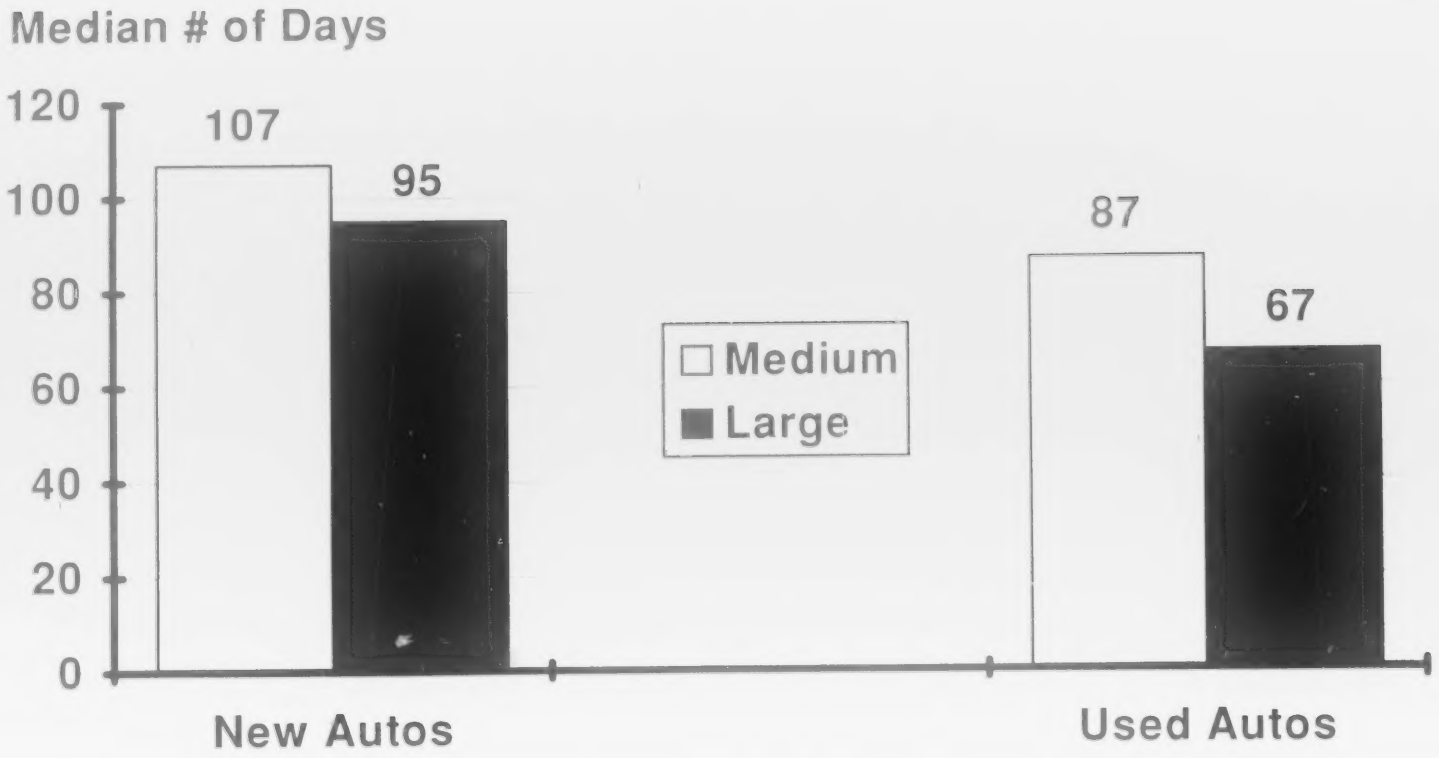


Exhibit 3.9

Business Days Allowed Between Sale and Pay-Off Before Unit is Sold out of Trust

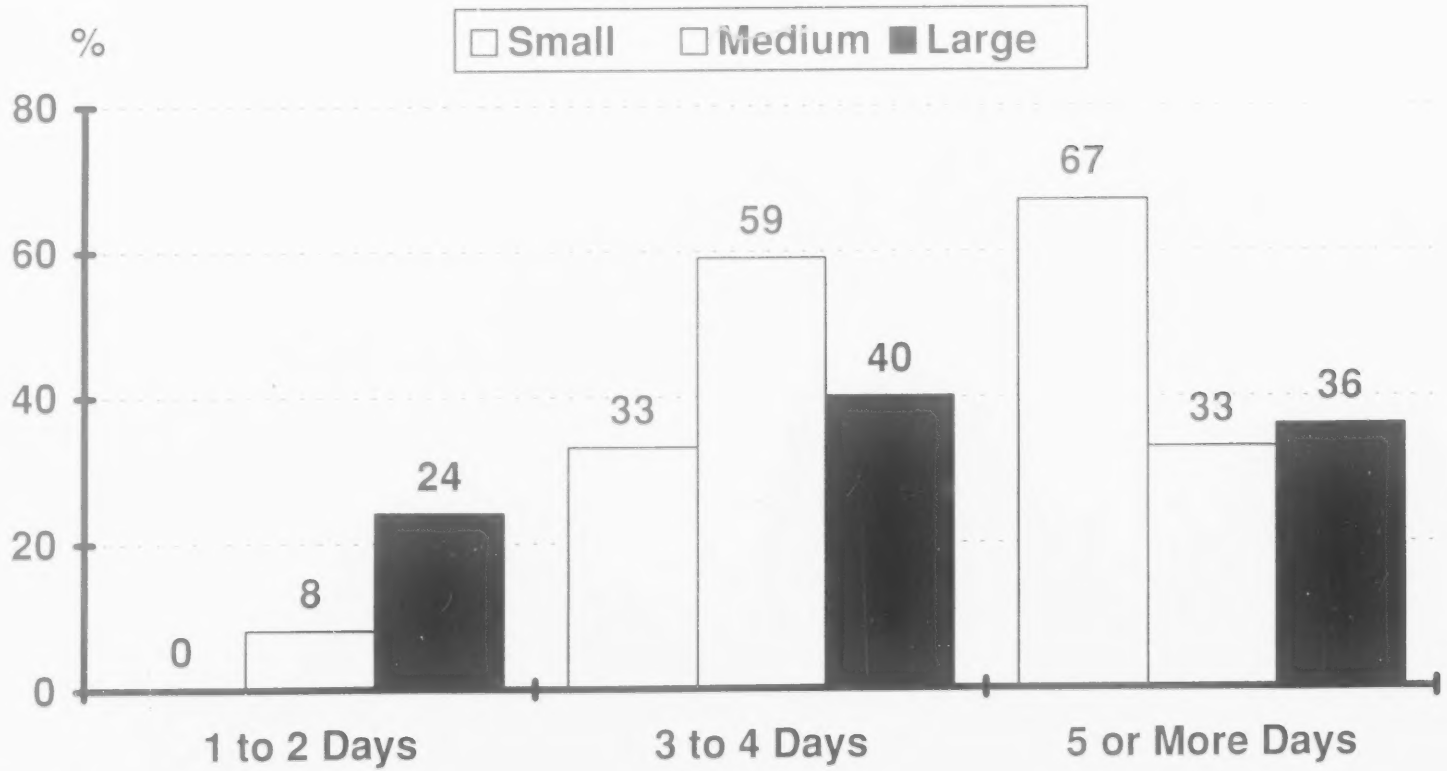


Exhibit 3.10
Methods of Protecting Floorplanned Autos, Part 1

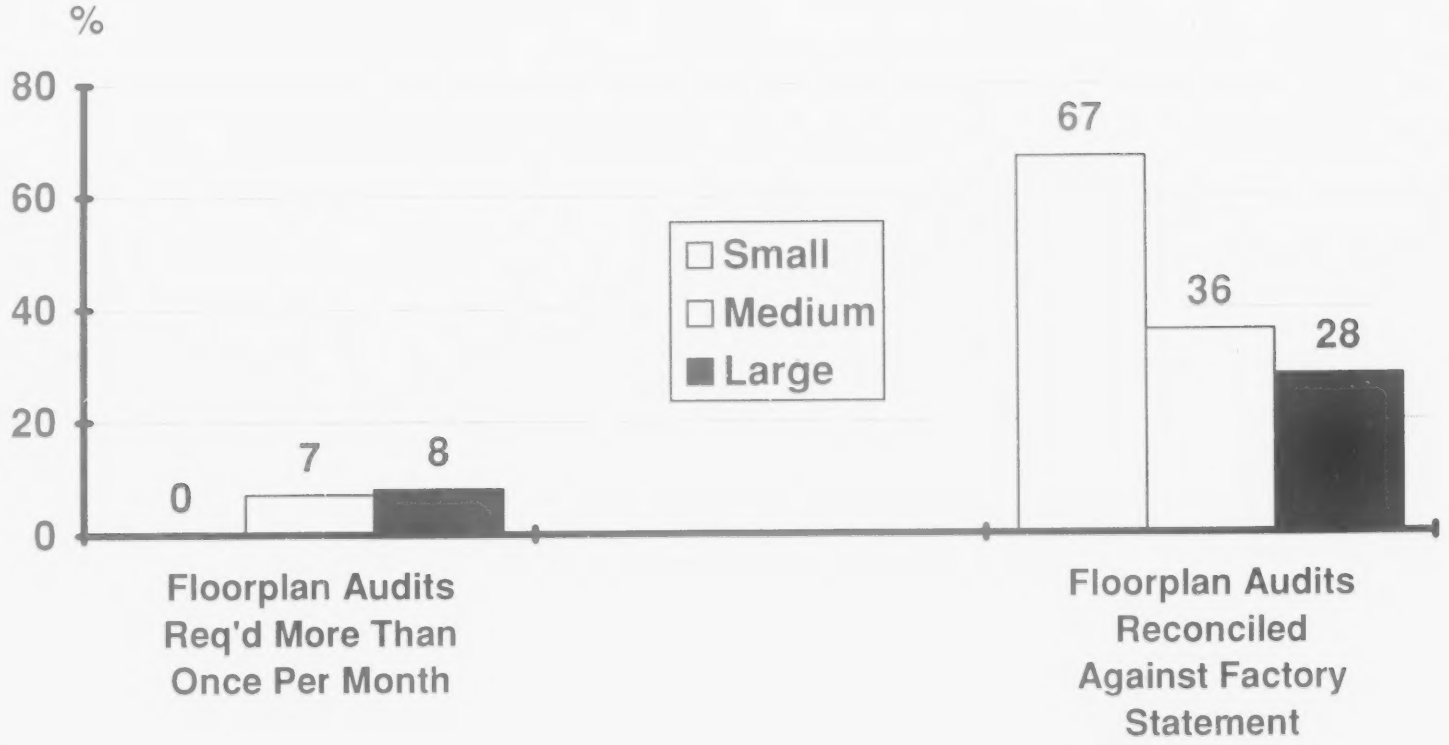


Exhibit 3.11
Methods of Protecting Floorplanned Autos, Part 2

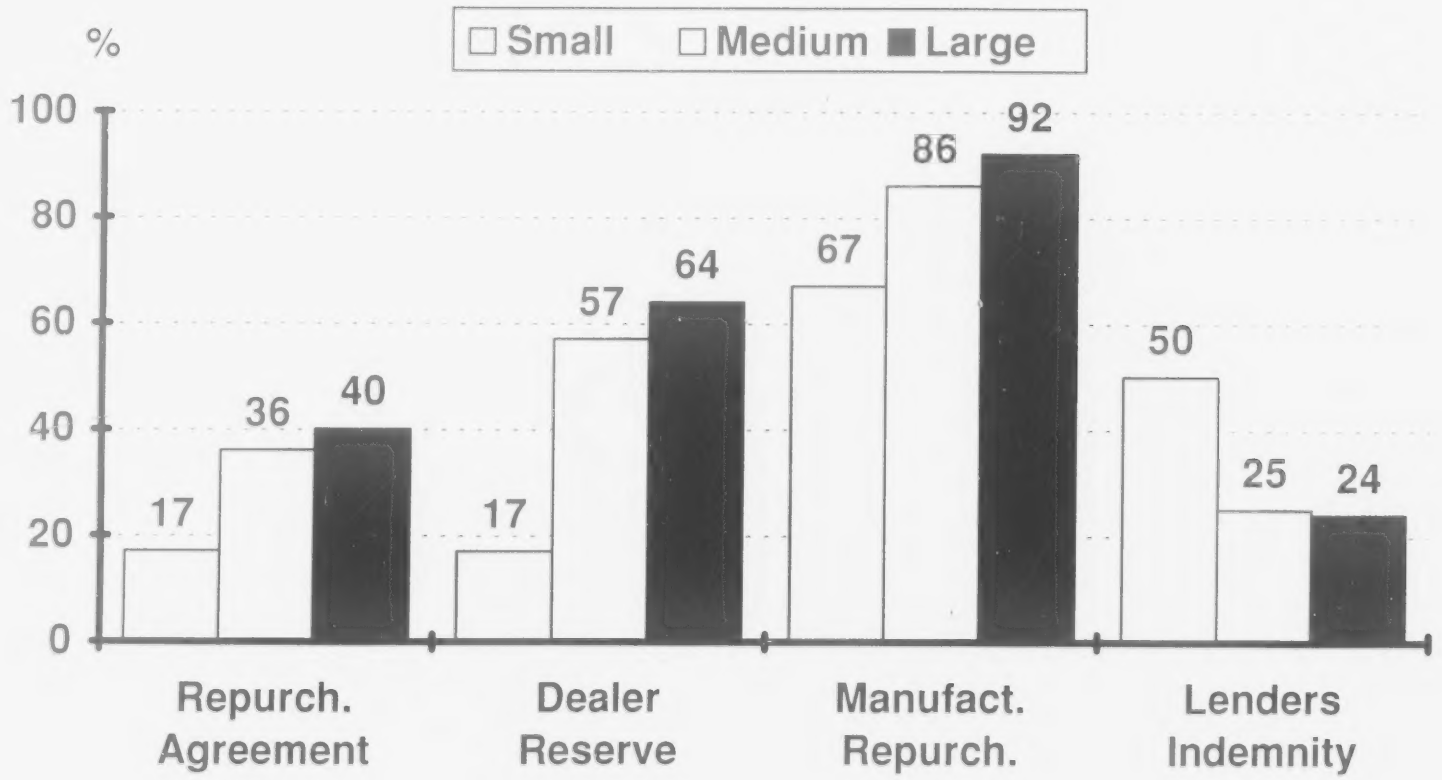
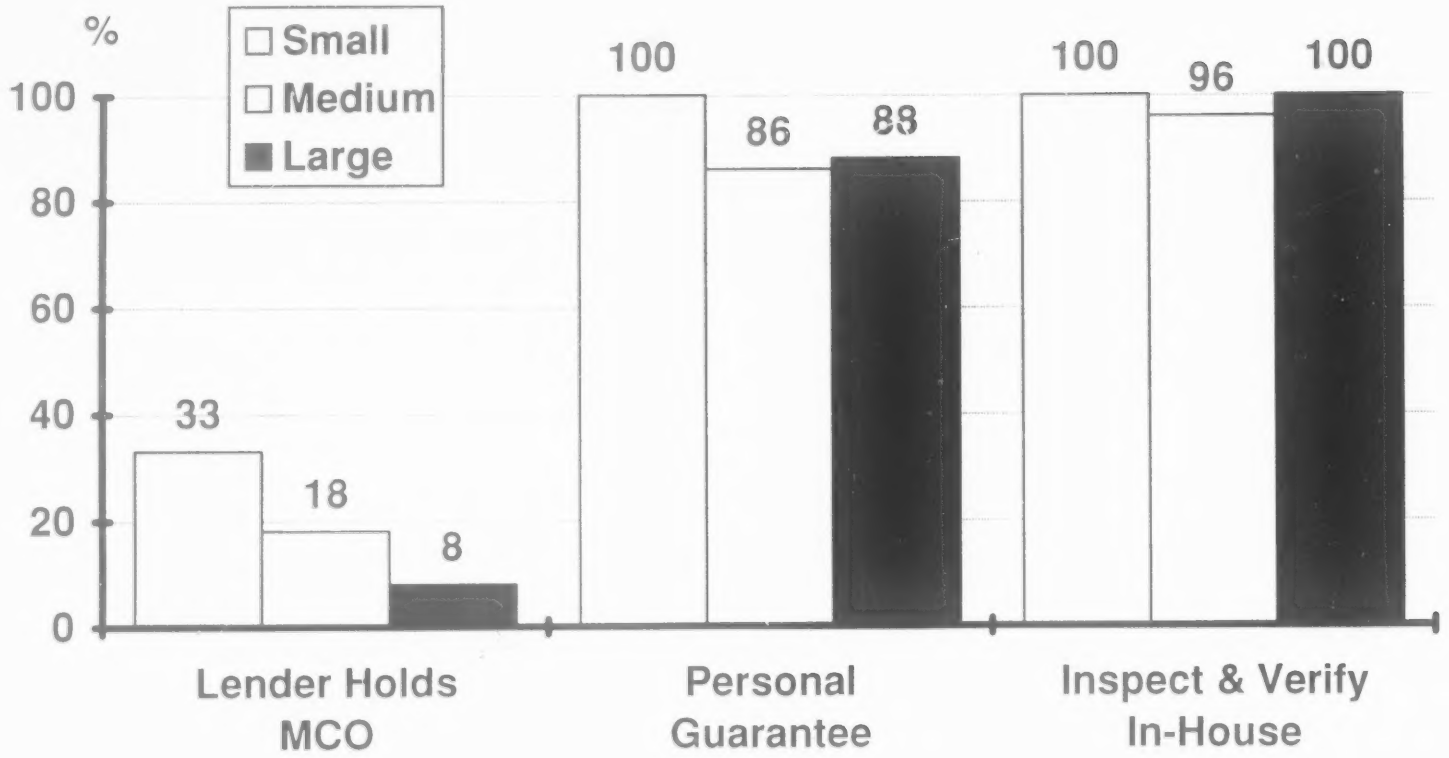


Exhibit 3.12
Methods of Protecting Floorplanned Autos, Part 3



INDIRECT AUTO LEASING

OVERVIEW OF SAMPLE

This portion of the study provides findings on respondents' indirect automobile leasing activities for 1992. The data relate only to leases where the bank is the actual lessor and holds title to the vehicle and do not cover lease lines of credit.

Data on indirect automobile leases were provided by 34 respondents, although not all respondents answered all questions. To reveal any variations in operating practices that were related to the size of the respondents, we have segmented them into three groups based on the number of leases held at year-end (Exhibit 4.1). The differences in size are quite striking, with large respondents having almost 12 times the average number of open- and closed-end lease contracts as medium respondents at year-end. Unfortunately, there were only five banks classified as "small," and not all of them were able to provided the requested data. Therefore, at several points we have shown data only for medium lessors, large lessors and all lessors.

Exhibit 4.1
Lease Portfolio Size Categories for 1992 Sample
(Closed-end and Open-end Leases)

Portfolio Size	*Sample Range (Number of Leases)*	*Mean Number of Leases*	*Median Number of Leases*	*Number of Respondents*
Small	Less than 750	625	720	5
Medium	750 to 9,500*	3,484	2,692	19
Large	Greater than 20,000	41,935	41,171	10
All		14,373	3,466	34

*There were no respondents with portfolios greater than 9,500 leases but less than 20,000 leases.

Greater depth of analysis is possible on closed-end leases than on open-end leases, simply because all but one of the respondents offered the former type of lease, and only eight of the 34 respondents offered the latter type. As may be examined in greater detail in the appendix table, the median number of closed-end leases held at year-end by 33 respondents was 2,932, with the median number for large respondents at 41,170. The median number of open-end leases held was 642. (As a reminder, on a closed-end lease the lessor bears the risk that the market value of the auto will be below the pre-set residual value at termination, whereas the lessee—the consumer—bears the risk on an open-end lease.)

Trends in Volume

A significant sub-set of respondents provided data on applications, approvals, bookings and dollar volume of leases financed during both 1991 and 1992. Data on closed-end leases are shown in Exhibit 4.2. The message is quite clear: 1992 was a much better year for auto leasing than 1991. The number of leases booked rose 36 percent, while the dollar volume increased 40 percent--the difference in growth rates indicating an growth in the amount of each lease contract. It should be recalled, however, that even 1991 was a reasonably good year for auto leasing in contrast to auto lending. In short, from 1991 to 1992, "the good got better."

EXHIBIT 4.2
Total Closed-end Leasing Activity
1991 vs. 1992

	1991	*1992*	*% Change*
Total Applications	179,118	218,752	22.1%
Total Leases Booked	89,036	121,189	36.1
Total Dollar Volume (millions)	2,019	2,832	40.3
Number of Respondents	27	27	

Processing Applications

Respondents reported that about 86 percent of their applicants came from dealers, with the remainder supplied by independent lessors. Reliance on dealers was greater among large respondents (94 percent) than among medium ones (84 percent).

As in the case of indirect auto lending, the fraction of applications that result in a lease contract is a function of how well the lessors' standards match the applications provided by dealers and the competition for acceptable applicants. Exhibit 4.3 shows approval and booking rates by the size-class of lessor. Again, it should be noted, as in the case of approval rates, that within each group the percentage of applications accepted were calculated by dividing the total number of applications accepted by the total number of applicants. Application approval rates were somewhat higher than approval rates on indirect auto loans, suggesting that lease applicants are more creditworthy than loan applicants, or that dealers have a better sense of required credit standards

EXHIBIT 4.3
Approval and Booking Rates on Closed-end Leases
1991 vs. 1992*
(Percentages)

		Approvals/ Applications	*Bookings/ Approvals*	*Bookings/ Applications*
1991	All	62.2	79.9	49.7
	Medium	56.7	84.7	48.0
	Large	63.1	79.5	50.2
1992	All	63.8	86.9	55.4
	Medium	61.2	82.0	50.2
	Large	64.3	87.7	56.4

*27 banks reported data for both years.

A striking difference between leasing and lending is apparent when we compare the percentages of approvals booked. First, booking rates rose significantly for leasing in 1992, whereas they declined slightly in lending. Second, booking rates are much higher in leasing than in lending. All size groups in leasing are in the range of an 80 percent booking rate, while the booking rate for lending varied from 51 percent to 66 percent among the three sub-sets of lenders. The difference is probably explained by the smaller number of alternative sources that dealers have for obtaining lease financing. Whereas a dealer might shop a loan among four or five potential lenders, the same wide choice is evidently not available in leasing. Early entrants into leasing may be able to gain a significant foothold in the market as a result.

The product of the approval rate times the booking rate is the percentage of applications booked. The "end game" is quite different in leasing and lending. A comparison of the percentages of applications booked for lending and leasing in 1992 is shown below by size of portfolio:

Bookings/Applications, 1992

	Leasing	*Lending*
Small	55.4%	27.6%
Medium	50.2	26.1
Large	56.4	36.5

How rapidly were lease applications processed? About 15 percent were approved within one hour (Exhibit 4.4), in sharp contrast to the 46 percent of applications for indirect auto loans (Exhibit 2.7). Also, whereas the average processing time was two or more hours about 30 percent of the time on lease applications, it was that long only 16 percent of the time on loan applications. The greater complexity of lease arrangements may help to explain the differences in processing times. While large respondents required more time to process loan applications than small- and medium-sized respondents, that was not the case in the processing of lease applications. There did not appear to be

significant differences in average times reported by medium and large lessors.

Contract Terms

Data for 1991 and 1992 indicate very little change in lease terms and turnover (Exhibit 4.5). The average duration of leases terminated during 1992 was just over three years, and the maximum duration allowed averaged 61 months in both years. The average lease factor on closed-end leases reported by medium respondents was 8.15 percent and for large respondents, 7.93 percent.

EXHIBIT 4.5
Lease Terms and Turnover
1991 vs. 1992

	1991	*1992*
Average Duration (months)	50.4	49.0
Maximum Duration (months)	60.8	61.0
Average Turnover (Inception to Payoff, Months)*	38.0	40.0

*Leases terminated during 1992.

Respondents commonly levied an acquisition fee and a lease security deposit (Exhibit 4.6). In contrast to medium respondents, large ones assessed an acquisition fee slightly more frequently, and their average fee was more than a fifth higher. Typically, respondents' lease security deposits equaled one months' rent. A minority of respondents combined the one months' rent with a flat fee. Consistent with last year's study, three-fourths of large respondents used monthly billing, while almost three-fifths of medium respondents used coupon books.

EXHIBIT 4.6
Lease Acquisitions Fees and Security Deposits
(Percentage of Respondents)

	Portfolio Size		
Acquisition Fee Charged	*Medium*	*Large*	*All*
Flat Acquisition Fee	88.2	92.3	85.7
Other Acquisition Fee	5.9	7.7	8.6
No Acquisition Fee	5.9	0	5.7
Average Size of Flat Dollar Fee	$286	$350	$305
Security Deposit Charged			
Flat Dollar Fee	5.9	8.3	6.1
One Month's Rent	88.2	66.7	81.8
Both	5.9	25.0	12.1
Number of Respondents	17	13	34

Respondents not only financed the anticipated loss of value of the auto from the time of purchase to the termination of the lease, but also various other outlays typically incurred by buyers at or near the time that the lease was signed. Allowing a lessee to

capitalize various fees in a lease lowers the front-end costs of leasing and makes the lease more attractive to consumers. Between 1991 and 1992, respondents increased their willingness to capitalize fees in leases (Exhibit 4.7). Nine out of ten respondents were willing to capitalize the costs of warranty packages—a feature that is often quite profitable for dealers. Large respondents were somewhat less likely to allow capitalization of registration fees (33 percent) than medium respondents (59 percent), but in other respects the practices of large and medium respondents were very similar.

While capitalization of fees may be attractive to consumers and dealers, it also has the effect of raising the average capitalized value of the lease on the books of the lessor. The more costs that are capitalized, the greater the risk to the lessor in case the auto must be repossessed. Respondents seek to control that risk that risk by capping total costs, including fees. The average cap for large firms was 107 percent of suggested retail price and for medium respondents, 106 percent.

In addition to financing selected fees, respondents also offered and financed the premiums on various types of insurance. While the insurance products were offered more frequently than in 1991, the percentage of all lessors offering insurance products was still low (Exhibit 4.8). The one exception was gap insurance, where the proportion of lessors offering this type of insurance rose from one-tenth to one third. In the case of accidental damage to the auto, gap insurance protects the lessee by covering the difference between the amount owed by the lessee and the amount recoverable on the auto.

Lease contracts also provide for extra charges at the conclusion of a lease in the form of termination fees and charges for excess mileage. About three-fourths of all respondents charged a fee for early termination, with the frequency of such a charge being significantly higher among large respondents than among medium respondents (Exhibit 4.9). The average fee for all respondents was $190, with the average ranging from $198 for medium respondents to $183 for large ones. Almost half of all respondents charged an end-of-term fee averaging $245. Again, large respondents levied this type of fee more frequently than medium-sized respondents.

A critical factor in setting the terms of a closed-end lease is the residual value. The higher the residual value, the more attractive the lease is to consumers, but the greater the risk of loss to the lessor on a closed-end lease. Almost three-fourths of respondents set their residual value based on the Black Book or similar publications, while the remainder set their own values independently, although perhaps with the aid of guidebooks. On average 15 percent of leases of all respondents were set above guide-book levels, with the most generous average level (26 percent) found among large respondents.

Still another aspect of pricing auto leases is the number of miles permitted before an excess mileage charge is assessed. Other things being equal, the lower the allowed mileage, the higher the lease cost to the consumer. The average mileage permitted was about 14,680, and an excess mileage charge of 11 cents per mile was almost uniform among respondents classified by size.

Lease-end Activity

We have noted that, on average in 1992, leases terminated in about 40 months, even though the mean contract duration was 49 months (Exhibit 4.5). The proportion of leases that reached full term dropped noticeably from 1991 to 1992 (Exhibit 4.10). Even if the response of one small lessor who reported that all of its leases were terminated early were deleted, the average of all leases that reached full term would still be only 46 percent, rather than the 44 percent shown in the exhibit. An average of the percentages reported by the 11 large respondents providing data shows that only 38 percent of their leases reached full term.

EXHIBIT 4.10
Disposition of Leases Reaching Term
(Percentage of Respondents)

	1991	*1992*
Percentage that Reached Full Term	62.0%	44.0%
Of Those Leases Reaching Term:		
Returned to Lessor	27.6%	26.0%
Extended Month-to-Month	4.9%	5.0%
Converted to New Lease/Loan	16.8%	17.0%
Paid-Off for Cash	50.7%	52.0%
Total	100.0%	100.0%
Number of Respondents	39	29

The disposition of leases reaching full term was very similar in both 1991 and 1992. About half were paid off in cash and just over a fourth were returned to the lessor. Although over 90 percent of respondents permitted extensions of existing lease contracts beyond the original term, only five percent of leases reaching term were extended. The experience of respondents differed somewhat by size of respondent (Exhibit 4 11). Consumers were more likely to return the auto and less likely to pay off in cash to large respondents than to medium respondents.

EXHIBIT 4.11
Disposition of Leases Reaching Term
(Percentage of Respondents)

	Portfolio Size		
	Medium	*Large*	*All*
Returned to Lessor	19%	31%	26%
Extended Month-to-Month	5%	5%	5%
Converted to New Lease/Loan	21%	15%	17%
Paid off for Cash	56%	48%	52%
Total	100%	100%	100%
Number of respondents	15	12	29

At the termination of closed-end leases, the "bet" made by lessors on the residual value results in gains or losses. While the number of respondents provided data on the frequency of gains and losses at the end of full-term leases was too small to provide definitive results, they are consistent with the more lenient policies regarding residual

values of large respondents that were noted earlier:

	Medium	*Large*
Percentage of contracts resulting in gain	53%	43%
Average gain per contract	$360	$519
Percentage of contracts resulting in loss	41%	48%
Average loss per contract	$576	$1,063
Number of respondents	12	9

Such losses motivate the purchase of residual value insurance. Somewhat more than half of all respondents insured residual value (Exhibit 4.12), with less than a sixth buying residual value insurance with deductibles. Premiums averaged 1.86 percent with very little variation by size of respondent.

CREDIT QUALITY

Delinquencies of 30 days or more as a percentage of outstandings—either in terms of number of accounts or dollars outstanding—exceeded delinquencies on indirect *new*-auto loans of the respondents (Exhibit 4.13 vs. Exhibit 2.20):

1992 Delinquencies, Leases vs. Loans

30+ days past due as percentage of:	*Leasing*	*Lending*
Number of accounts outstanding	2.54%	2.47%
Dollar outstandings	2.12%	1.78%

From 1991 to 1992, delinquencies on lease contracts fell, both as a percentage of the number of accounts outstanding and as a percent of the dollar amounts outstanding. However, the decline reported was entirely in the 31-to-59-days category. Percentage of accounts 60 days or more delinquent *rose* from 0.65 percent to 0.73 percent calculated on the basis of number of accounts and from 0.67 percent to 0.73 percent calculated on the basis of dollar amounts outstanding.

EXHIBIT 4.13
Delinquencies*

	Percent of Accounts		*Percent of Dollars Outstanding*	
Time Past Due	*1991*	*1992*	*1991*	*1992*
31 to 59 Days	1.97%	1.81%	1.95%	1.74%
60 to 89 Days	0.39%	0.47%	0.38%	0.47%
90+ Days	0.26%	0.26%	0.29%	0.26%
Total	2.62%	2.54%	2.62%	2.47%
Number of Respondents	34		30	34 28

*Means of respondent's percentages.

Large respondents reported a higher level of delinquencies than did medium respondents, whether based on number of accounts or dollars outstanding (Exhibit 4.14). However, medium respondents appeared to have about twice the level of serious delinquencies; that is, 90 days or more past due. Thus, the "roll rate" from the 60-to-90-day bucket to later buckets appears to have been less favorable for medium respondents than for large ones.

EXHIBIT 4.14
Delinquencies
Percentage of Number of Accounts Outstanding by Size of Respondent*

	Percent of Account		*Percent of Dollars Outstanding*	
Time Past Due	*Medium*	*Large*	*Medium*	*Large*
31 to 59 Days	1.24%	1.81%	1.08%	1.89%
60 to 89 Days	0.29%	0.27%	0.24%	0.26%
90+ Days	0.22%	0.09%	0.20%	0.11%
Total	1.7%	2.17%	1.52%	2.26%
Number of Respondents	14	12	14	12

*Means of respondent's percentages.

Repossessions on leases averaged 2.32 percent of the number of accounts outstanding (Exhibit 4.15). This rate was rather higher than the 1.92 rate based on accounts outstanding of new-auto loans shown in Exhibit 2.23, and higher than the rate found last year: 2.09 percent. Possibly, the competitive pressures to expand into the leasing business has contributed to a deterioration in quality. Nonetheless, Exhibit 4.16 shows that net credit losses on the average dollar outstandings were modest: only 0.76 percent of outstandings, very similar to the net loss reported on new auto-loans as a percentage of dollar outstandings: 0.82 percent (Exhibit 2.25).

EXHIBIT 4.15
Repossessions

	Percentage	*Dollars*	*Number of Respondents*
Average Repossession Frequency (Repossessions/Accounts)	2.32%	—	32
Loss on Repossessions (Percentage of Dollars Outstanding)	1.19%	—	27
Average Fully Loaded Cost Per Repossession	—	$335	29
Average Cost to Sell Repossessed Unit (dollars)	—	$233	30
Average Net Credit Loss per Repossession (dollars)	—	$4,287	31

EXHIBIT 4.16
Losses on Lease Portfolio

	Mean of Respondents' Percentages	*Number of Respondents*
Average Gross Credit Loss (Percent of Average Dollars Outstanding)	1.04%	27
Average Net Credit Loss (Percentage of Average Dollars Outstanding)	0.76%	29
Percent of Gross Dollar Chargeoffs Attributable to Bankruptcy	21.8	18

CONCLUSION

Economies of scale may be favoring large lessors, if our lack of small respondents is a valid indicator. Auto leasing has continued to expand from last year. That growth means that national data on automobile loans outstanding at commercial banks understate the importance of banks' role in automobile financing. Leasing is apparently a more complex process, as indicated by the greater length of time required to process applications than in the case of auto loans. The variety of charges assessed at the beginning and termination of a lease also make it more difficult for consumers to shop for leases than for loans. Further, the choices available to consumers at the end of a lease add further complexities. In spite of these complexities for both lessor and lessee, auto leasing appears to be a growing market. The delinquencies on leases appear to be higher than on new auto loans, especially serious delinquencies. However, the net losses are similar to those experienced on new auto loans. New, inexperienced entrants into the rapidly growing leasing field may put pressure on credit quality.

Exhibit 4.4
Average Processing Time on Leases
Full Sample

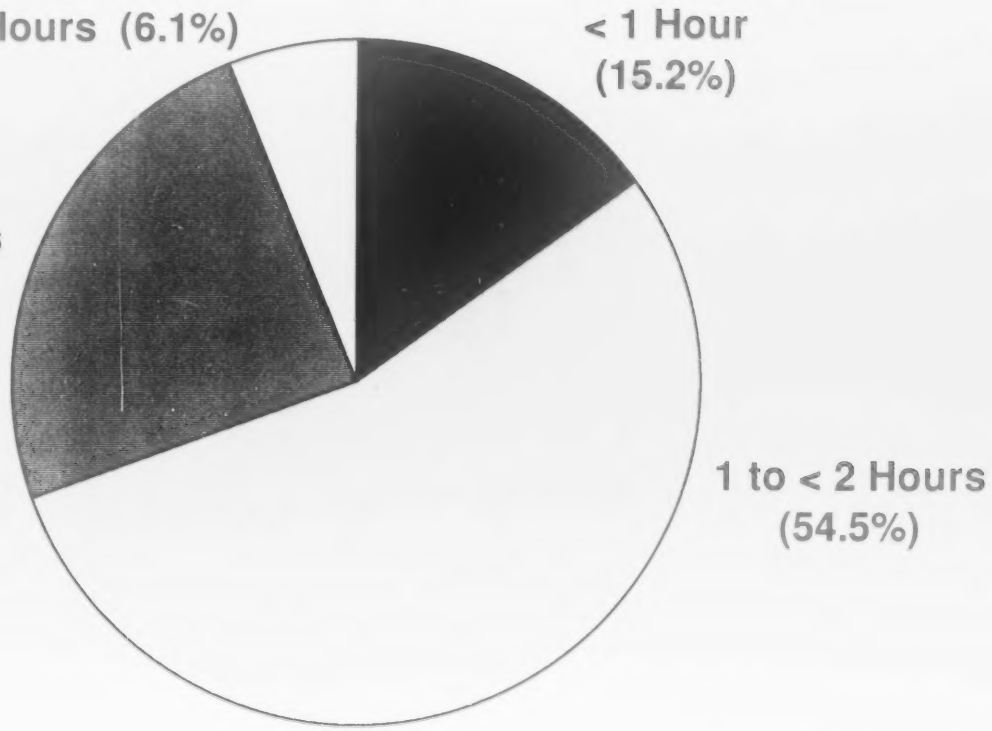


Exhibit 4.7

Fees Capitalized in Lease, 1991 vs. 1992 (Percent of Respondents Allowing)

Exhibit 4.8

Insurance Products Offered, 1991 vs 1992 (Percent of All Lessors)

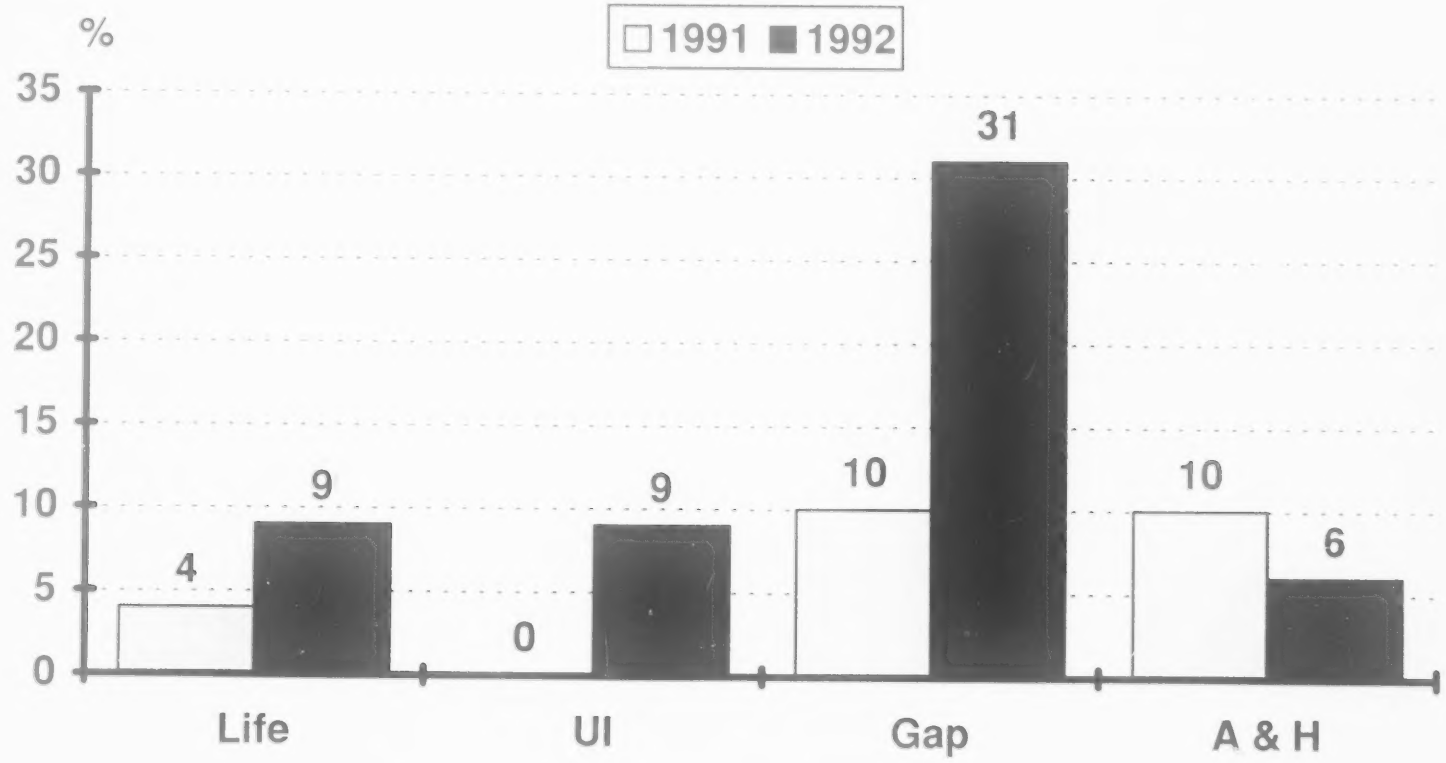


Exhibit 4.9

Early Termination and End of Term Fees (Percent of Respondents)

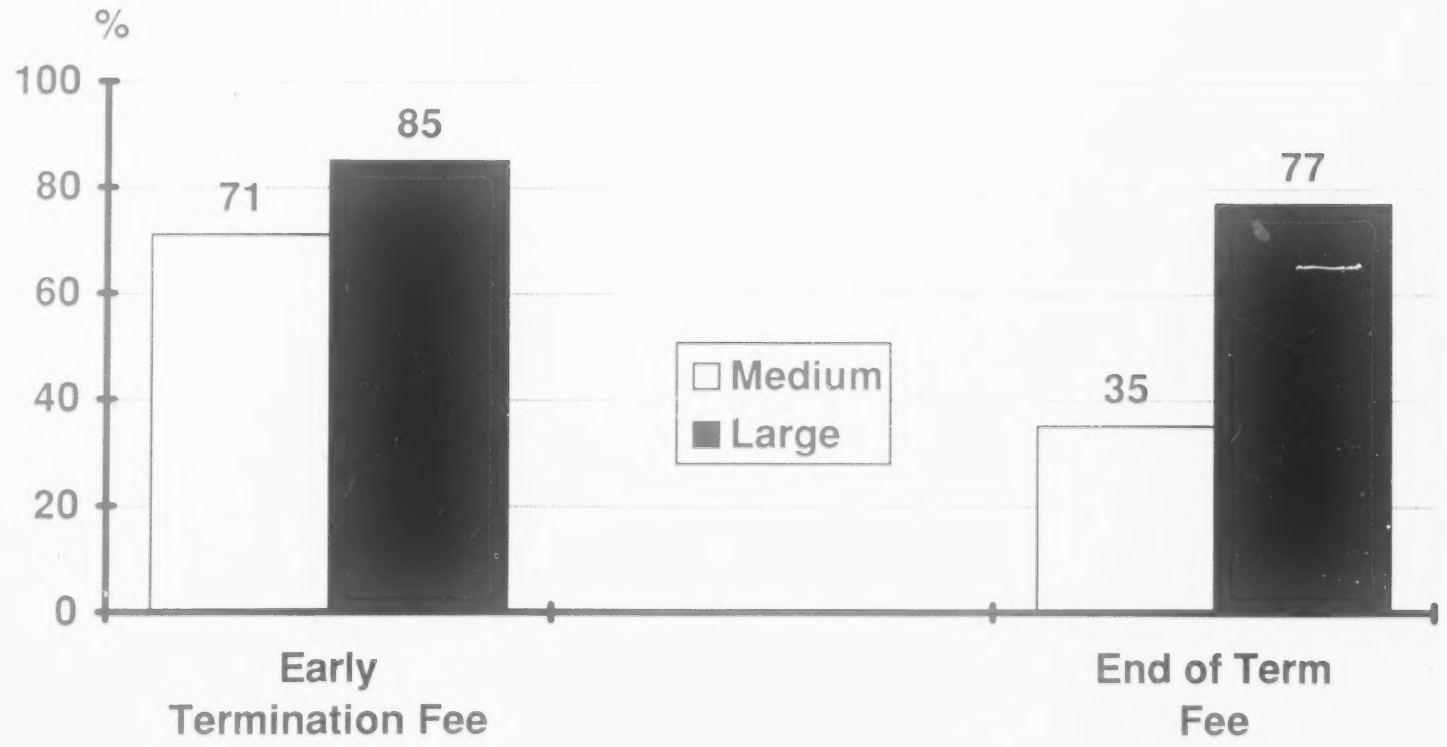
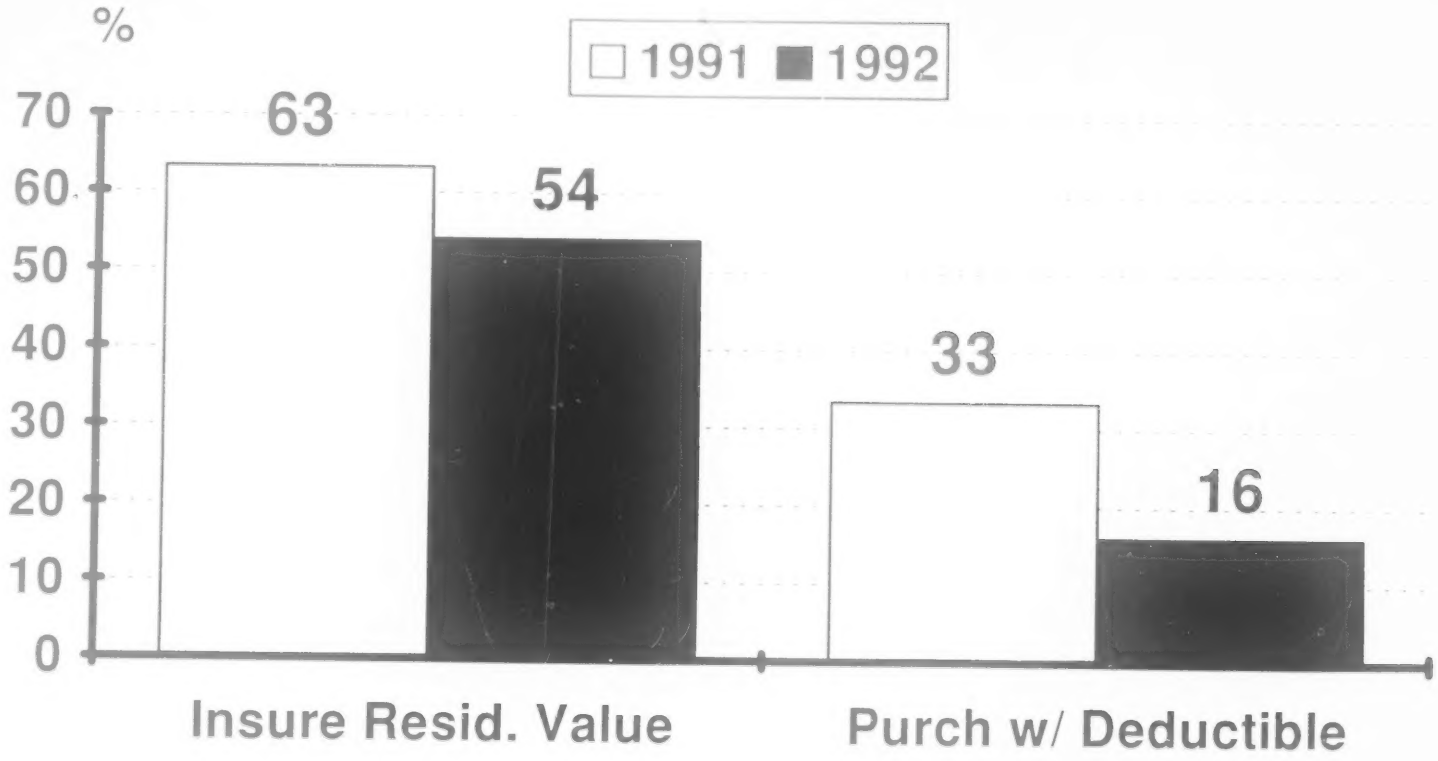


Exhibit 4.12

Residual Value Insurance Purchased (% of Respondents)



APPENDIX 1

1992 QUESTIONNAIRE

CONSUMER BANKERS ASSOCIATION *The Association for Retail Banks and Thrift Institutions*

1000 Wilson Boulevard, 30th Floor, Arlington, Virginia 22209-3908 Tel.: 703/276-1750 • Fax: 703/528-1290

January 4, 1993

Dear Auto Finance Executive:

You have supported our research efforts in the past and we again ask for your participation in CBA's annual Auto Finance Survey. Efforts have been ongoing to improve this most comprehensive survey of indirect lending, leasing and floorplan finance activities. Your participation ensures that it continues as a unique source of information on this important business, and we will send you a complimentary Executive Summary upon its completion.

In order to present preliminary findings at CBA's 1993 Automobile Finance Conference and Trade Show in New Orleans March 7-10, we have moved up the response deadline to Friday, January 29. If you are unable to respond by that date, please notify the Credit Research Center at (317) 494-4380. Your early response is crucial if we are to meet an earlier publication schedule.

As always, your response will be held in the strictest confidence. We are attempting to reduce duplicate survey mailings to institutions, but ask for your help in forwarding the separate, color-coded sections to the appropriate individuals.

Thank you for your assistance and support.

Sincerely,

Dr. Michael Staten
Director
Credit Research Center
Purdue University

Walter R. Day, III
Chairman, CBA Automobile
Finance Committee
Senior Vice President
Mellon Bank, NA

CONSUMER BANKERS ASSOCIATION

CREDIT RESEARCH CENTER
KRANNERT GRADUATE SCHOOL OF MANAGEMENTJ
PURDUE UNIVERSITY

AUTOMOBILE FINANCING SURVEY

This questionnaire is an important part of an ongoing program to track trends and provide insights into what has occurred in the auto financing areas for banking over the past few years. Your personal and prompt response is appreciated. If you do not have the specific data that fit the question, *please give the best and most appropriate information available.*

All questions, unless otherwise stated, relate to 1992 financing activity.

This survey includes a background page and three color-coded sections on (1) indirect lending; (2) floorplan finance; and (3) indirect leasing. Please help ensure that these sections are distributed to those best qualified to complete them. Please return the completed sections to the Credit Research Center. A pre-addressed envelope is provided for your convenience. Questions on the survey may be directed to Dr. Michael Staten, Credit Research Center, (317) 494-4380, FAX (317) 496-1170, or to Fritz Elmendorf at CBA, (703) 276-3879, FAX (703) 528-1290.

When recording information, please use the following format:

Percentages: 50.00% is 50 percent, .50% is 1/2 of 1 percent

Dollars are denoted by $bill, mill, thou, hund.

In appreciation for your participation in this study, a copy of the Executive Summary will be sent to you. The results of this study will be reported only in aggregate and ;your data will be held in confidence by the researchers at Purdue University. Thank you for your cooperation.

Address of person to receive the Executive Summary:

Name/Title _____
Institution _____
Address _____
_____

Telephone _____

Please return completed surveys by January 29, 1993, to:

Dr. Michael Staten
Credit Research Center
Krannert Graduate School of Management
Purdue University
West Lafayette, IN 47907

Please notify the Credit Research Center if you need extra time to respond.

Name of Institution_____

Individual completing this section_____

Telephone number_____

Section One
INFORMATION ABOUT YOUR INSTITUTION

1. What type of financial institution do you represent?

☐ Holding Company (Single BHC)

☐ Multi-Bank Holding Company

☐ Independent Bank

☐ Savings & Loan

☐ Mutual Savings Bank

☐ Other (Please specify)_____

2. Which of the following best describes the current geographic distribution of your automobile financing business? (check one only)

☐ Single market/local (One city, county, or metro area)

☐ Concentrated state regional (One region of the state)

☐ Statewide

☐ Interstate (Markets covering area beyond state boundaries)

3. In what state(s) does your financial institution conduct automobile financing business? (check all that apply)

West

☐AK, ☐AZ, ☐CA, ☐CO, ☐HI, ☐ID, ☐MT, ☐NM, ☐NV, ☐OR, ☐UT, ☐WA, ☐WY

Midwest

☐IA, ☐IL, ☐IN, ☐KS, ☐KY, ☐MI, ☐MN, ☐MO, ☐ND, ☐NE, ☐OH, ☐SD, ☐WI, ☐WV

Northeast

☐CT, ☐DE, ☐MA, ☐MD, ☐ME, ☐NH, ☐NJ, ☐NY, ☐PA, ☐RI, ☐VT

Southeast

☐AL, ☐AR, ☐DC, ☐FL, ☐GA, ☐LA, ☐MS, ☐NC, ☐OK, ☐SC, ☐TN, ☐TX, ☐VA

4. Check the items in the following table that describe your current automobile lending operations and plans for the next 12 months:

	Currently offer	Plan to drop	Plan to add
Direct	☐	☐	☐
Indirect	☐	☐	☐
Indirect Leasing	☐	☐	☐
Floorplanning	☐	☐	☐

Name of Institution_____

Individual completing this section_____

Your telephone number_____

Section Two
INDIRECT AUTO FINANCING

Notes: 1. All figures are assumed to apply to calendar years (12/31) 1991 and 1992, unless otherwise shown below:

_____1992 Month end _____1991 Month end

2. If exact figures are not available, please estimate to the best of your ability.

1. As of December 31 for 1992 and 1991, or other fiscal year ends noted above, what were your company's total **outstandings** for indirect loans?

	1992	Outstandings	1991
New Autos			
Number of accounts	_____		_____
Gross dollar outstandings	$_____		$_____
Used Autos			
Number of accounts	_____		_____
Gross dollar outstandings	$_____		$_____

2. In the table below, please summarize your indirect auto **volume** during 1992 and 1991.

	1992	Volumes	1991
New Autos			
Number of applications	_____		_____
Number approved*	_____		_____
Number made	_____		_____
Gross dollar volume	$_____		$_____
Used Autos			
Number of applications	_____		_____
Number approved*	_____		_____
Number made	_____		_____
Gross dollar volume	$_____		$_____

*Conditioned deals should be calculated as approvals.

3. How many loan decisions per 8 hour day do you expect of an indirect loan officer?

☐25 or less ☐26-35 ☐36-50 ☐51-60 ☐61-75 ☐more than 75

Is your application processing system: ☐automated ☐manual

4. From application to dealer notification, what was the average processing time?

☐Less than 1/2 hour ☐ 1 hour to less than 2 hours ☐more than 4 hours
☐1/2 hour to less than 1 hour ☐ 2 hours to less than 4 hours

5. In reviewing applications for auto loans, do you usually:

a. Use credit scoring? ☐Yes ☐No

b. Use generic bureau-based scoring systems? ☐Yes ☐No

INDIRECT PORTFOLIO CHARACTERISTICS

6. What is your average amount financed?

New Cars _____% of invoice _____% of MSRP

Used Cars _____% wholesale book

7. What was the average amount financed, net of interest, for loans originated in 1992? (Original Balance)

New $_____

Used $_____

8. What was your most frequent buy (retention) rate on new autos as of December 31, 1992? (Show as APR)

36 months and under _____% 49-60 months _____%

37-48 months _____% Over 60 months _____%

9. What method of pricing is used?

☐ Simple interest:

- ☐ Fixed
- ☐ Variable
- ☐ Both Fixed and Variable

☐ Add-on, or Prepaid

☐ Both simple and add-on

☐ Other (Please explain) _____

10. Do you offer tiered rates; that is rates that are higher, the higher the risk?

☐ No

☐ New autos only

☐ Used autos only

☐ Both new and used autos

11. Do you charge a late fee on indirect auto loans when permitted by state law?

☐ No, even when permitted by state law

☐ Yes

12. What percentage of all indirect loans in your portfolio pay out before the scheduled term?

_____% New

_____% Used

13. Under your current policies, what is your maximum maturity in months on auto loans?

New autos _____months

Used autos Less than 2 model years old: _____months
2 to 3 model years old: _____months
over 3 model years old: _____months

14. What percentage of deals booked during 1992 fall within the following terms? (Total should equal 100%).

New autos	Used autos
_____% 36 months and under;	_____% 36 months and under;
_____% 37-48 months;	_____% 37-48 months;
_____% 49-60 months;	_____% 49-60 months;
_____% over 60 months;	_____% over 60 months

DEALER RELATIONS

15. On what basis do you calculate your dealer reserves?

☐ Flat fee (flat dollar) only

☐ Percentage of finance charge (ratio method)

☐ 100% difference in charges between contract rate and retention or buy rate

☐ Less than 100% of the difference between contract rate and retention or buy rate

☐ Percentage of amount financed

☐ Other (Explain)_____

Do you have reserve caps over the retention (buy) rate?

☐ No

☐ Yes

New_____% or $_____

Used_____% or $_____

16. Do you typically have a dealer reserve holdback? ☐ Yes ☐ No

If yes, is it a specific dollar amount or a percentage of outstandings?

☐ Specific dollar amount $_____

☐ Percent of outstandings _____%

☐ Both: (Please fill in $ and % above)

17. When do you typically pay dealer reserves?

☐ all up front

☐ none up front

☐ some up front (____%) and balance over time

18. Do you charge back dealer reserves if a loan is prepaid?

☐ No

☐ Yes

If yes, up to what period of time do you charge back?

☐ Full term of contract

☐ No charge-back after _____ days

☐ Other? Please explain _____

19. Do you charge back dealer reserves in the event of a repossession?

☐ Yes If yes, what percentage of reserves? _____%

☐ No

20. Which of the following have you successfully implemented with at least one quarter of your dealers? (check all that apply)

☐ Add to discount rate for exceeding standard maturities

☐ Add to discount rate for exceeding standard loan-to-value

☐ Charging application, documentation or processing fee per contract booked

☐ Limiting dollar amount that you will advance for such products as credit insurance and warranties

☐ Obtaining repurchase agreement or some other form of recourse

☐ Require bank approval of companies for which you finance products
(Products such as credit insurance, GAP insurance and warranties)

CREDIT QUALITY

Note: Reported delinquencies should not include repossessed accounts or charged off accounts. Please check if your figures include:

Repossessed accounts____ Charged-off accounts____

21. Please provide the following data for new and used autos if at all possible; if not possible, please show totals.

At the end of your most recent fiscal year, what were your delinquencies on indirect new and used auto loans calculated as:

(1) Number of accounts delinquent as a percentage of the total number of accounts outstanding at the end of the fiscal year;

(2) Dollar amount of loans delinquent taken as a percentage of the dollar amount of loans outstanding at the end of the fiscal year.

	New Autos		Used Autos	
Time Past due	# of Accounts	$ Amounts	# of Accounts	$ Amounts
31-59 days	_____%	_____%	_____%	_____%
60-89 days	_____%	_____%	_____%	_____%
90+ days	_____%	_____%	_____%	_____%
Total	_____%	_____%	_____%	_____%

22. In 1992, or for the most recent 12 month period available, what was the number of bankruptcies filed and the percentage of gross charge-offs attributable to bankruptcy?

Number of bankruptcies _____

Percentage of gross charge-offs attributable to bankruptcy (bankruptcy losses divided by gross charge-offs) _____%

23. Of the above total bankruptcies, how many were filed under chapter 7? _____(#)

How many of these were filed under chapter 13? _____(#)

How many of these were filed under Chapter 11? _____(#)

24. How many of the bankrupt accounts have reaffirmed their auto loan? _____(#)

25. What is the percentage of challenges you have made to these bankruptcies? _____%

What percentage of these challenges have been successful? _____%

26. Please provide the following figures relating to your **repossessions** of new and used autos for 1992 or your latest fiscal year.

	New Autos	Used Autos
Number repossessed	_____	_____
Gross dollar losses	$_____	$_____
Gross dollar losses net of recoveries	$_____	$_____

27. Please provide the following figures relating to your costs of repossessing autos:

a. Average fully loaded cost per repossession, pickup to sale. $_____

b. Average cost to sell a repossessed unit. $_____

28. Please indicate the dollar volume of actual losses from **all sources** for both new and used auto loans. (Loss ratios will be calculated based on gross dollar outstandings reported in question 1.)

	Gross Credit Losses	Net Credit Losses After Recoveries
New Autos	$_____	$_____
Used Autos	$_____	$_____
Total	$_____	$_____

You can help improve future questionnaires from the CBA/CRC by answering the following two questions. Be frank; we can take it.

1. Which questions did you think were pretty useless or uninteresting--or perhaps badly worded? How would you change them.

2. Which questions should have been asked that would have helped you in managing your lending activities?

Thank you for completing this section of CBA's Auto Finance Survey

Name of Institution_____

Individual completing this section_____

Your telephone number_____

☐ **If you do not provide wholesale/floorplan financing, please check here and return questionnaire.**

Section Three
WHOLESALE/FLOORPLAN FINANCE

Notes: 1. All figures are assumed to apply to calendar years (12/31) 1991 and 1992, unless otherwise shown below:

_____1992 Month end _____1991 Month end

2. If exact figures are not available, please estimate to the best of your ability.

1. How many years has your company been involved in wholesale financing? _____Years

2. Please provide the following data for new and used autos if at all possible; if not possible, please show totals.

As of December 31 for 1992 and 1991, or other fiscal year ends noted above, what were your total **outstandings** for auto floorplanning?

	1992	1991
New autos:		
Number of units	_____	_____
Gross dollar outstandings	$_____	$_____
Used autos:		
Number of units	_____	_____
Gross dollar outstandings	$_____	$_____

3. How many dealerships (different addresses) were represented in your portfolio?

_____Floorplanning relationships

_____Retail relationships

4. What was your *average* gross yield (expressed in basis points) over the prime rate on **new** auto floorplanning? _____ (# of basis points over prime--1/2%=50 basis points)

5. What was your *average* gross yield (expressed in basis points) over the prime rate on **used** auto floorplanning? _____ (# of basis points over prime)

6. Do you charge flat fees on floored units?

New

☐ No

☐ Yes: Frequency of charge: ☐ One-time ☐ Monthly ☐ Other_____

Level of charge: $_____

Used

☐ No

☐ Yes: Frequency of charge: ☐ One-time ☐ Monthly ☐ Other_____

Level of charge: $_____

7. At what percentage of the purchase price do you floorplan "program cars"?

☐ Less than 90%

☐ Between 90-100%

☐ More than 100%

8. What is the average number of days a **new** unit remains in floorplan. _____Days

9. What is the average number of days a **used** unit remains in floorplan. _____Days

10. Policies regarding retail penetration:

a. Do you require right of first refusal on retail loans? ☐ Yes ☐ No

b. Do you penalize or reward dealerships in the floorplan rate for retail penetration? ☐ Yes ☐ No

c. What percentage of the floorplanned units as wholesale loans became retail loans with your company last year? _____%

11. Do you offer your dealers floorplan insurance? ☐ Yes ☐ No

12. Which of the following do you require when financing? (check **all** that apply)

☐ Repurchase agreement
☐ Dealer reserve agreement
☐ Manufacturers repurchase agreements
☐ Lenders indemnity insurance
☐ Lender holds MCO (manufacturer certificate of origination)
☐ Personal individual guarantee
☐ Inspection and verification of floorplanned units by in-house personnel
☐ Others (Please specify)_____

13. Do you normally require floorplan audits more than once per month? ☐ Yes ☐ No

14. Do you perform reconcilements on floorplan audits against factory statement? ☐ Yes ☐ No

15. How many business days do you give a dealer after the sale date of the vehicle to pay for the unit?

☐ 1 day ☐ 2 days ☐ 3 days ☐ 4 days ☐ 5 days ☐ more than 5 days

16. Do you have a financing policy to put a dealer on finance hold? ☐ Yes ☐ No

17. Have you had a floorplan liquidation in the past year? ☐ Yes ☐ No

If yes, how many? _____

18. Do you use curtailment? ☐ No Please go to next question.

a. ☐ Yes, for **new** autos:

Curtailment begins after ____ months.

After that date, ____% of balance must be paid each ____ month.

Balance must be paid off no later than ____ months.

b. ☐ Yes, for **used** autos:

Curtailment begins after ____ months.

After that date, ____% of balance must be paid each ____ month.

Balance must be paid off no later than ____ months.

c. ☐ Yes, for **demonstrators**:

Curtailment begins after ____ months.

After that date, ____% of balance must be paid each ____ month.

Balance must be paid off no later than ____ months.

19. What were losses as a percentage of outstandings on floorplan lending for each of the last five years?

_____% 1992

_____% 1991

_____% 1990

_____% 1989

_____% 1988

You can help improve future questionnaires from the CBA/CRC by answering the following two questions. Be frank; we can take it.

1. Which questions did you think were pretty useless or uninteresting--or perhaps badly worded? How would you change them.

2. Which questions should have been asked that would have helped you in managing your lending activities?

Thank you for completing this section of CBA's Auto Finance Survey

Name of Institution_____

Individual completing this section_____

Your telephone number_____

☐ **If you do not provide indirect automobile leasing, please check here and return questionnaire.**

Section Four
INDIRECT AUTOMOBILE LEASING

Notes: 1. All figures are assumed to apply to calendar years (12/31) 1991 and 1992, unless otherwise shown below:

_____1992 Month end _____1991 Month end

2. If exact figures are not available, **please estimate to the best of your ability.**

3. The following questions relate to your **indirect** automobile leasing activities. Please report only those leases where the bank is the actual lessor and holds title to the vehicle. Lease lines of credit should **not** be reported.

4. If a question is not relevant to your operation or if the data are not available, please mark N/A.

All questions, unless otherwise stated, relate to 1992 indirect leasing activity.

1. How long has your company been involved in indirect automobile leasing? _____Years

2. As of December 31, for 1992 and 1991, or other fiscal year ends noted above, what were your company's gross lease contract receivables (outstandings) for indirect leases?

	Outstandings 1992	1991
Closed-end Auto Leases		
Number of accounts	_____	_____
Lease Contract Receivables	$_____	$_____
☐ Do not offer		
Open-end Auto Leases		
Number of accounts	_____	_____
Lease Contract Receivables	$_____	$_____
☐ Do not offer		

3. In the table below, please summarize your indirect auto leasing volumes during 1992 and 1991.

	Volumes 1992	1991
Closed-end Auto Leases		
Number of applications	_____	_____
Number approved*	_____	_____
Number booked	_____	_____
Total value of leases booked (capitalized cost)	$_____	$_____
Open-end Auto Leases		
Number of applications	_____	_____
Number approved*	_____	_____
Number booked	_____	_____
Total value of leases booked (capitalized cost)	$_____	$_____

*Conditioned deals should be calculated as approvals.

4. Does your institution operate a separate auto leasing department/division, or is it organized under a larger unit such as a consumer/retail function?

☐ Separate auto leasing department/division
☐ Combined auto lending and leasing department/division
☐ Other (Please explain)_____

5. From application receipt to dealer notification, what was the average processing time?

☐ Less than 1/2 hour
☐ 1/2 hour to less than 1 hour
☐ 1 hour to less than 2 hours
☐ 2 hours to less than 4 hours
☐ more than 4 hours

6. What percentage of business do you conduct with dealers versus independent lessors?

_____% of business with dealers
_____% of business with independent lessors

7. What method of billing do you use?

_____% Coupon books

_____% Monthly billing

8. What was the **average** term of indirect auto leases made during 1992? _____Months

9. What was the **maximum** term of indirect auto leases made during 1992? _____Months

10. What is the average turnover (the period of time from lease inception to payoff) for your indirect auto leases that were paid off during 1992? _____Months

11. Is the lease acquisition fee for your institution:

☐ Flat fee $_____

☐ Percentage of acquisition cost _____%

☐ Currently have no acquisition fee

☐ Other (Please explain)_____

12. The lease security deposit for your institution is:

☐ ____ month's rent

☐ Flat dollar amount of $_____

☐ Both a flat dollar amount of $_____ and ____ month's rent

13. Do your leases typically have the capital cost disclosed? ☐Yes ☐No

14. What was your most frequent lease factor, expressed as a percentage, on leases during December, 1992?

Closed-end leases _____%

Open-end leases _____%

15. What is the maximum amount of capitalized costs advanced as a percentage of manufacturers' suggested retail price? _____%

16. Do you allow fees to be capitalized?

☐ Yes ☐ No If no, please go to next question.

Which of the following do you allow to be capitalized?

☐ License fees
☐ Personal property tax
☐ Registration fees
☐ Sales tax
☐ Warranty packages
☐ Other (Please specify)

17. Do you offer insurance products as part of the lease arrangement?

☐ Yes ☐ No. If no, please go to next question.

Which products do you offer, and what percentage of customers accepted the products (penetration rate)?

	Penetration Rate
☐ Life insurance	_____%
☐ Unemployment insurance	_____%
☐ Gap insurance	_____%
☐ Accident and health insurance	_____%
☐ Other (Please specify)_____	

18. Do you insure residual value? ☐Yes ☐No

If Yes, do you usually buy residual value insurance with deductibles? ☐Yes ☐No

19. What was the average premium per lease of residual value insurance as a percentage of residual value?

With deductible _____% Dollar amount of deductible $_____

Without deductible _____%

20. Is an additional premium due if losses exceed a certain level? ☐Yes ☐No

What is the additional rate?_____

FULL-TERM LEASES

21. Of all the leases terminated in 1992, what percentage terminated early? _____%

22. For leases that reached term, what percentage (total should equal 100%) of leases are:

_____% Returned to the lessor

_____% Extended month-to-month

_____% Converted into a new lease/loan

_____% Paid off for cash by dealer or lessee

_____100% Total

23. What percentage of leases reached scheduled termination in 1992 where residual value insurance has applied?

_____% of full term leases

24. What percentage of full-term leases resulted in claims in 1992, and what was the average claim amount?

Percentage of full-term leases _____%

Average claim amount $_____

25. What is the primary method of setting residual values on your leases?

☐ Use ALG, Black Book, Kelly, or similar publication
☐ Set own values independently (including adjusting guidebooks)
☐ Other (Please specify)_____

26. What percentage of your leases have residual values **above** guide book limits? _____%

27. Upon sale of full-term leases (do not include early term gains/losses), what percentage resulted in gains (and the average dollar gain per lease) and what percentage resulted in losses (and the average dollar loss per lease)?

_____% Gain, and the average gain per lease was $_____
_____% Loss, and the average loss per lease was $_____

What was the total aggregate dollar gain or loss per vehicle upon sale of full term leases?

☐ Aggregate Gain $_____
☐ Aggregate Loss $_____

28. What is the average liquidation expense per full-term unit not including gain or loss on sale?

$_____

LEASING POLICIES

29. Does your institution allow extensions of the existing lease contracts beyond the original terms of the lease? ☐Yes ☐No

30. Do you allow third-party assumptions of the original contract? ☐Yes ☐No

If Yes, what percentage were new lease contracts? %_____

31. Do you apply a termination fee on early terminations? ☐Yes ☐No

If Yes, what is the amount of the fee? $_____

32. Do you apply an end-of-term fee at maturity? ☐Yes ☐No

If Yes, what is the amount of the fee? $_____

33. What are your allowable miles per year? _____miles per year

In cents per mile, what is the charge for excess mileage for an auto with an MSRP equal to $20,000? _____cents per mile

DELINQUENCIES

34. At the end of your most recent fiscal year, what were your delinquencies on indirect auto leases calculated as:

(1) The number of accounts delinquent as a percentage of the number of accounts outstanding at the end of the fiscal year;

(2) The dollar amount of leases delinquent taken as a percentage of the gross dollar amount of leases outstanding at the end of the fiscal year.

Time past due	Number of accounts	Dollar amounts
31-59 days	_____%	_____%
60-89 days	_____%	_____%
90+ days	_____%	_____%
Total	_____%	_____%

Note: If possible, exclude repossessed accounts or charged-off accounts from your reported delinquencies. If you are unable to break down your data, please check if your figures include:

Repossessed accounts ☐ Charged-off accounts ☐

35. What was your average repo frequency rate during 1992? (that is, the number of repos divided by the total number of accounts outstanding at the end of the fiscal year)

Percentage of Accounts _____%

36. What was the total loss on repos as a percentage of gross dollar outstandings at the end of the fiscal year?

Percentage of Gross Dollar Outstandings _____%

37. What is the average fully loaded cost per repo (pickup to sale) $_____

38. What is the average cost to sell a repossessed unit (including all auction costs)? $_____

39. What is the average net credit loss per repossession (including the above costs)? $_____

40. What is your 1992 annualized gross credit loss as a percentage of year-end outstandings on indirect auto leases (before recovery)? _____%

41. What is your 1992 **net** credit loss after recoveries (including proceeds from the sale of repossessed vehicles) as a percentage of year-end outstandings? _____%

42. What percentage of gross charge-offs resulted from bankruptcies? ($ bankruptcies/$ gross charge-offs) _____%

You can help improve future questionnaires from the CBA/CRC by answering the following two questions. Be frank; we can take it.

1. Which questions did you think were pretty useless or uninteresting--or perhaps badly worded? How would you change them.

2. Which questions should have been asked that would have helped you in managing your lending activities?

Thank you for completing this section of CBA's Auto Finance Survey

APPENDIX 2

Respondents to the 1992 Survey

Respondents in Both 1991 and 1992

American Federal Bank
Bank IV Kansas
Bank of America
Bank of America, Nevada
Bank of Hawaii
Bank One, Columbus
Bank One, Dayton
Bank One, Youngstown, NA
Bank South
Barnett Banks, Inc.
Beneficial Savings Bank
Bucks County Bank and Trust
Central Bank of the South
Central Carolina Bank and Trust
Chase Automotive Finance
Comerica
Compass Bank for Savings
Corestates First Pennsylvania Bank
Crestar Bank
D and N Bank
First Alabama Bank
First Hawaiian Bank
First National Bank, Gainesville
First Union
First Valley Bank
First Vermont Bank and Trust Co.
Friendly Bank of Oklahoma City
Fulton Bank
Huntington Bancshares, Inc.
INB National Bank, Northwest
Integra Bank
Key Bank of Maine
KeyCorp Marketing Division
Liberty National Bank and Trust Co.
M + T Bank
Mellon Bank, NA
Mercantile Bank
Meridian Bank
Mitsubishi Motors Credit of America
National Westminster Bank USA
NationsBank
Norwest Bank of Minn
One Valley Bank
Seafirst Bank
Second National Bank of Saginaw
Shawmut National Corp
Society National Bank
Southtrust Bank of Alabama
State Bank of Standish
Sunbank
Wells Fargo Bank
Wilmington Trust Company
York Bank and Trust

New Respondents

American Investment Bank
AmSouth Bank, NA
ASLK-CGER Bank
BancOhio National Bank
Bank of America Arizona
Bank of America Texas
Bank of Boston
Bank of Nova Scotia
Bank One, Akron, NA
Bank One Athens
Bank One, Lima
Bank One, Richmond, NA
Bank One, Texas
Bank One, Ypsilanti, NA
Baybanks Credit Corporation
Boatmen's First National Bank of Kansas City
Branch Banking and Trust Corp
California Thrift and Loan
Champion Federal
Chemical Bank and Trust
Chevy Chase F.S.B.
Citizens Bank
Commercial National Bank
European American Bank
First Chicago Bank
First Chicago Bank, Ravenswood

First Fidelity Bank
First National Bank
First Tennessee Bank
First Virginia Bank
Frost National Bank
INB Banking Company
Key Bank of Oregon
LaSalle Talman Bank, FSB
Lehigh Valley Bank
Midlantic National Bank
National City Bank
National City Bank, Indiana
NBD Merriville
Premier Bank
Rocky Mountain Bank
Sunwest Bank of Albuquerque
U.S. Bancorp
United States National Bank
Valley National Bank Arizona
Volvo Car Finance
Wachovia Corporation
World Omni Financial Corp.

APPENDIX 3

DETAILED RESPONSES TO QUESTIONS

A: INDIRECT AUTO FINANCING

B: WHOLESALE FLOORPLAN

C: INDIRECT AUTO LEASING

APPENDIX A

INDIRECT AUTO FINANCING

TABLE A.1
1992 Sample Indirect Loan Portfolios

	Aggregate Sample Portfolio, 12/92	*Total 1992 Bookings*
Number of loans	6.52 Million	2.11 Million
Dollars of receivables	$47.55 Billion	$24.03 Billion
Number of respondents = 96.		

TABLE A.2
Profile of 1992 Sample*
Indirect Loan Portfolios

	1991	*1992*	*Percent Change*
Mean values:			
Number of loans (000's)	61.43	65.32	6.5%
Dollars outstandings (millions)	$487.4	$536.2	11.0%
Median values:			
Number of loans (000's)	27.53	28.57	3.1%
Dollars outstandings (mil)	$219.56	$222.3	1.49%

*For 79 banks that reported both years.

TABLE A.3
1992 Sample by Portfolio Size

	Number of New and Used Loans			*Dollars Outstanding (millions)*		*Number*
Category	*Range*	*Mean*	*Median*	*Mean*	*Median*	*Responding*
Small	less than 8,000	4,229	3,336	$30.9	$24.0	22
Medium	8,000 to 38,000	20,808	17,630	$169.9	$138.0	40
Large	38,000 or more	137,509	97,751	$1,098.3	$688.0	33
All		57,507	25,000	$468.3	$195.6	95

TABLE A.4
Total Indirect Auto Lending Activity
1991 vs. 1992

	1991	*1992*	*% Change*
Total applications (000's)	4,299	4,904	14.1
Total loans made (000's)	1,605	1,891	17.8
Total dollar volume (millions)	18,689	23,304	24.7
Number of respondents	83	83	

TABLE A.5
Lending Activity During 1991-92*
(Mean Values)

	1991	*1992*	*% Change*
Number of applications (000's)	63.21	72.10	+14.1%
Number of loans (000's)	19.34	22.79	+17.8%
Dollar volume (millions)	$230.70	$287.70	+24.7%

*Number of banks reporting both years = 83.

TABLE A.6
Loan Activity for Banks that Reported Both Years
1991 vs. 1992
Applications
(Mean Values)

	1991	*1992*	*% Change*
Small	5,514	6,275	+13.8%
Medium	28,076	29,240	+4.2
Large	126,600	147,429	+16.4
All	63,214	72,115	+14.1

TABLE A.7
Approvals

	1991	*1992*	*% Change*
Small	2,277	3,088	35.62%
Medium	13,494	14,946	10.76%
Large	68,072	81,647	19.94%
All	33,782	39,077	15.67%

TABLE A.8
Loans Booked
(i.e. Loans Made)

	1991	*1992*	*% Change*
Small	1,396	1,733	24.1%
Medium	7,132	7,630	7.0%
Large	44,593	53,810	20.7%
All	19,341	22,788	17.8%

TABLE A.9
Dollar Volume
(Millions)

	1991	*1992*	*% Change*
Small	18.74	18.79	.27%
Medium	72.54	86.52	19.3%
Large	525.90	665.60	26.6%
All	230.70	287.70	24.7%

TABLE A.10
Percentage of Applications Approved

	1991	*1992*
Small	41.3	49.2%
Medium	48.1%	51.1%
Large	53.8%	55.4%
All	53.4%	54.2%

TABLE A.11
Approval Booking Percentage

	1991	*1992*
Small	61.3%	56.1
Medium	52.8%	51.0
Large	65.5%	65.9
All	57.3%	58.3

TABLE A.12
Use of Manual vs. Automated Application Processing Systems
(Percentage of Responents)

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Manual	66.7%	37.5%	23.5%	38.9%
Automated	33.3%	62.5%	76.5%	61.1%
	100.0%	100.0%	100.0%	100.0%
Number of Respondents	21	40	34	95

TABLE A.13
Association of Automated Systems to Number of Decisions Per Day Expected of Loan Officers
(Percentage of Respondents)

	Application Processing System	
Number of Decisions per Day	*Automated*	*Manual*
25 or less	1.7%	20.0%
26 to 35	17.2%	22.9%
36 to 50	22.4%	22.9%
51 to 60	17.2%	22.9%
over 60	41.5%	11.3%
	100.0%	100.0%

TABLE A.14

Association of Automated Systems to Processing Time, Part 1

(Percentage of Respondents)

Average Processing Time	*Application Processing System*	
	Automated	*Manual*
Less than ½ hour	10.3%	7.5%
½ hour to less than 1 hour	36.2%	37.5%
1 to less than 2 hours	41.4%	32.5%
2 hours and over	12.1%	22.5%
	100.0%	100.0%

TABLE A.15

Association of Automated Systems to Processing Time, Part 2

(Percentage of Respondents)

Average Processing Time	*Application Processing System*		
	Automated	*Manual*	
Less than ½ hour	66.6%	33.3%	100%
½ hour to less than 1 hour	58.3%	42.7%	100%
1 to less then 2 hours	64.9%	35.1%	100%
2 hours and over	40.0%	60%	100%

TABLE A.16

Indirect Loan Average Processing Time

Percentage of Respondents

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Less than ½ hour	9.1%	14.3%	2.9%	9.2%
½ hour to less than 1 hour	40.9%	35.7%	35.3%	36.7%
1 to less then 2 hours	31.8%	40.5%	38.2%	37.8%
2 hours to less than 4 hours	18.2%	9.5%	20.6%	15.3%
Over 4 hours	0.0%	0.0%	2.9%	1.0%
	100.0%	100.0%	100.0%	100.0%
Number of Respondents	22	42	34	98

TABLE A.17

Use of Credit Scoring Technology

(Percentage of Respondents)

Scoring Technology	*Portfolio Size*			
	Small	*Medium*	*Large*	*All*
Credit Scoring	27.3%	54.8%	70.6%	54.1%
Bureau-Based Scores	27.3%	38.2%	41.7%	36.7%
Number of Respondents	22	42	34	98

TABLE A.18
1992 Loan Characteristics
(Mean Values)

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Percent made for new autos	54.7%	57.4%	53.2%	55.4%
Average loan size				
New	$12,279	$13,224	$13,473	$13,109
Used	$8,118	$8,543	$9,240	$8,704

TABLE A.19
New Auto Loan Terms, 1992
Banks vs. Auto Finance Companies

	CBA Survey	*Auto Finance Companies**
Maturity		
Mean months	—	53.6
Percent over 60 months	12%	—
Percent 49 to 60 months	61%	—
Maximum maturity (mean)		
New	64 months	—
Used		—
Less than 2 model years old	56 months	—
2 to 3 model years old	48 months	—
Over 3 model years old	39 months	—
Amount financed		
Average amount financed	13,425	14,408
Max loan to value	—	90%
Percent MSRP	89%	—
Percent invoice	100%	—

*Source: Federal Reserve Board, G-19 Series; Average Values for December, 1992.

TABLE A.20
Most Frequent "Buy" Rate
New Autos, 12/31/92

Loan Term	*APR*
36 months and under	7.91
37 to 48 months	8.01
49 to 60 months	8.13
More than 60 months	8.10

TABLE A.21
Maturity of New Auto Loans Booked during 1992
(Percentage Distribution*)

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
36 months or less	12%	7%	10%	9%
37 to 48 months	27%	17%	21%	20%
49 to 60 months	67%	60%	60%	61%
Over 60 months	3%	19%	9%	12%
Number of respondents	14	31	30	75

* Mean of respondents' percentages.

TABLE A.22
Maturity of Used Auto Loans Booked During 1992
(Percentage Distribution*)

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
36 months or less	22%	27%	24%	26.3%
37 to 48 months	42%	45%	38%	41.6%
49 to 60 months	32%	34%	37%	27.7%
Over 60 months	5%	0%	3%	3.0%
Number of respondents	12	29	25	66

* Mean of respondents' percentages.

TABLE A.23
Early Pay-Outs
(Mean of Respondents' Percentages)

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
New	64%	68%	68%	67%
Used	60%	63%	67%	64%

TABLE A.24
Loan Pricing

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Simple Interest only	68.2%	73.8%	61.8%	68.4%
Add-on, or prepaid	18.2%	4.8%	2.9%	2.1%
Both	9.1%	19.0%	32.4%	21.4%
Other	4.5%	2.4%	2.9%	3.1%
	100.0%	100.0%	100.0%	100.0%
Respondents	22	42	34	98

TABLE A.25
Simple Interest Pricing Methods
(Percent of Those Who Use Simple Interest Pricing Only)

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Fixed	76.5%	66.7%	60.0%	66.7%
Fixed and variable	23.5%	33.3%	40.0%	33.3%

TABLE A.26
Pricing for Risk
(Percent of Respondents)

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Offer risk-based tiered rates				
New cars only	0.0%	7.1%	0.0%	3.1%
Both new and used cars	23.8%	35.7%	35.3%	33.0%
Charge late fee where legal	71.4%	88.1%	84.4%	83.2%
Respondents	21	42	34	97

TABLE A.27
Basis for Calculating Dealer Reserves
(Percentage Distribution*)

Method Used	*Portfolio Size* *Small*	*Medium*	*Large*	*All*
Ratio method (percent of finance charge)	14.3%	13.2%	39.3%	21.8%
100 percent of contract rate less retention	42.9%	52.6%	32.1%	43.7%
Share of contract rate less retention	23.8%	13.2%	14.3%	16.1%
Percentage of contract rate less retention	14.3%	15.8%	7.1%	12.6%
Other	4.8%	5.3%	7.1%	5.8%
	100.0%	100.0%	100.0%	100.0%
Number of respondents	21	38	28	87

* Mean of respondents' percentages.

TABLE A.28
Dealer Reserve Holdback Programs

	Portfolio Size *Small*	*Medium*	*Large*	*All*
Percent have a program	62%	62%	68%	64%
Percent using specific dollar amount	42%	23%	13%	23%
(average size)	$8,871	$1,950	$2,089	$1,775
Percent using percent of outstandings	33%	50%	30%	39%
(average percent)	7.00%	4.06%	2.59%	3.75%
Percent using both	25%	27%	57%	38%
Number of respondents	21	42	34	97

* Mean of respondents' percentages.

TABLE A.29
Dealer Reserve Payments

	Portfolio Size *Small*	*Medium*	*Large*	*All*
Percent have reserve cap over				
Retention (buy rate)	71.4%	82.9%	94.1%	84.4%
Level of cap (percentage points)				
New (mean)	3.14%	3.43%	3.63%	3.45%
Used (mean)	3.40%	3.50%	3.81%	3.60%
Timing of reserve payments				
All up front	81.0%	78.0%	75.8%	77.9%
None up front	9.5%	2.4%	3.0%	4.2%
Some up front	9.5%	19.5%	21.2%	17.9%

TABLE A.30
Reserve Chargeback Policy

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Percent who chargeback if loan prepaid	90.5%	100.0%	94.1%	95.9%
When does chargeback apply:				
Full term of contract	68.4%	57.5%	53.1%	58.2%
No chargeback after "X" days	26.3%	35.0%	28.1%	30.8%
(Average number of days)	181	193	184	188
Other				
Percent who chargeback if repossessed	71.4%	78.6%	81.8%	11.0%
(Average percent of reserves)	100.0%	100.0%	100.0%	100.0%

TABLE A.31
Other Features of Contracts with Dealers
(Percentage of Respondents Who Use with 25% or More of Dealers)

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Penalty for exceeding standard maturity	35.0%	57.1%	55.9%	52.1%
Penalty for exceeding standard loan-to-loan value	25.0%	14.3%	26.5%	20.8%
Fee per contract booked	20.0%	14.3%	26.5%	19.8%
Limit advances for insurance, warranties	40.0%	69.0%	82.4%	67.7%
Obtain repurchase or recourse agreement	15.0%	26.2%	35.3%	27.1%
Require approval of other products financed	30.0%	38.1%	58.8%	43.8%
Number of respondents	20	42	34	96

TABLE A.32
Delinquencies, 1992
Percentage of Number of Loans*

	Portfolio Size			
Time Past Due	*Small*	*Medium*	*Large*	*All*
31 to 59 days	1.33	1.48	2.08	1.66
60 to 89 days	.36	.36	.44	.38
90+ days	.32	.28	.30	.30
Total	2.01	2.12	2.82	2.34
Number of respondents	10	23	15	48

*Banks reporting combined new and used delinquencies.

TABLE A.33
Delinquencies
Percent of Dollars Outstanding*

	Portfolio Size			
Time Past Due	*Small*	*Medium*	*Large*	*All*
31 to 59 days	1.04%	1.03%	2.01%	1.36%
60 to 89 days	.29%	.24%	.42%	.31%
90+ days	.35%	.24%	.29%	.27%
Total	1.68%	1.51%	2.72%	1.94%
Number of respondents	10	23	15	48

*Banks reporting combined new and used delinquencies.

TABLE A.34
Delinquencies
New and Used Auto Loans*

	Time Past Due			
	31-59 Days	*60-89 Days*	*90+ Days*	*Total*
Percent of number of loans				
New	1.50%	0.37%	0.28%	2.15%
Used	1.98%	0.58%	0.38%	2.94%
Percent of Dollars Outstandings				
New	1.25%	0.31%	0.25%	1.81%
Used	1.65%	0.47%	0.28%	2.40%

*Means of respondents' percentages for the 27 firms that separated new and used percentages.

TABLE A.35
Charge-offs from Bankruptcy

	Portfolio Size				
Time Past Due	*Small*	*Medium*	*Large*	*All*	*Number of Respondents*
Mean number of bankruptcies	69	341	1,610	793	73
Bankruptcy dollar losses (Percentage of gross charge-offs)	18%	22%	25%	22%	60

TABLE A.36
Bankruptcy Experience

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Percent filed under Chapter 7	69.0%	58.7%	68.1%	63.8%
Percent accounts reaffirmed	36.1%	53.5%	23.5%	37.6%
Percent accounts challenged	26.0%	25.0%	30.0%	27.0%
Percent of successful challenges	54.0%	33.0%	61.0%	50.0%

TABLE A.37
Repossessions, 1992

	Portfolio Size			
Mean number of autos repossessed	*Small*	*Medium*	*Large*	*All*
New number	51	268	1,078	457
Percent of new accounts*	2.04%	1.66%	2.21%	1.92%
Used number	47	174	914	363
Percent of used accounts*	2.34%	3.28%	2.31%	2.77%
Total number	98	442	1,992	820
Number of respondents**	5	12	8	25

*Means of respondents' percentages.
**Number who separated new vs. used repossessions.

TABLE A.38
Gross and Net Dollar Losses
New Repossessions
(Mean values in 000's)

	Gross Loss	*Recovery Rate**	*Net Loss*
Small	$354	58.2%	$148
Medium	$1,318	42.8%	$754
Large	$7,275	41.2%	$4,276
All	$2,268	42.1%	$1,313

*Difference between mean gross and net losses, divided by mean gross loss.

TABLE A.39
Gross and Net Dollar Losses
Used Repossessions
(Mean values in 000's)

	Gross Loss	*Recovery Rate**	*Net Loss*
Small	$225	45.3%	$123
Medium	$645	45.0%	$355
Large	$1,816	21.8%	$1,420
All	$942	39.2%	$573

*Difference between mean gross and net losses, divided by mean gross loss.

TABLE A.40
Costs of Repossession

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Fully loaded cost per repossession (pickup to sale)	$356	$333	$389	$358
Cost to sell unit	$179	$175	$187	$180
Number of respondents	14	34	26	75

TABLE A.41
Net Losses, 1992

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
New autos: net loss as percentage of dollars outstandings	.78%	.80%	.85%	.82%
Number of respondents	2	7	7	16
Used auto: net loss as percentage of dollars outstandings	1.7%	1.4%	.85%	1.2%
Number of respondents	3	7	7	17
Total: net loss as percentage of dollars outstanding*	.94%	.76%	.92%	.86%
Number of respondents	11	23	25	59

*Includes 42 respondents who did not report new and used losses separately.

TABLE A.42

Delinquency Rates For Automobile Credit*

Percent of Loans 30+ Days Past Due, Seasonally Adjusted

Month	Commercial Bank Direct	Commercial Bank Indirect	Finance Company	Month	Commercial Bank Direct	Commercial Bank Indirect	Finance Company	Month	Commercial Bank Direct	Commercial Bank Indirect	Finance Company
1980- J	1.64%	2.05%	2.05%	1985- J	1.55%	1.86%	1.56%	1990- J	1.94%	2.37%	2.40%
F	1.85	2.02	2.16	F	1.59	1.92	1.52	F	1.92	2.43	2.42
M	1.73	2.30	2.11	M	1.63	2.15	1.78	M	1.94	2.43	2.37
A	1.77	2.38	2.19	A	1.70	2.07	1.70	A	2.16	2.61	2.41
M	1.89	2.51	2.65	M	1.63	1.87	1.63	M	2.06	2.58	2.46
J	1.95	2.58	2.52	J	1.70	2.01	1.64	J	2.12	2.62	2.50
J	2.00	2.50	2.45	J	1.76	1.95	1.65	J	1.96	2.60	2.54
A	2.07	2.68	2.31	A	1.80	2.03	1.82	A	1.94	2.55	2.46
S	2.02	2.49	2.20	S	1.84	2.08	1.79	S	2.00	2.64	2.54
O	1.76	2.25	2.28	O	1.60	1.96	1.74	O	2.13	2.56	2.53
N	1.86	2.44	2.14	N	1.66	2.00	1.89	N	2.18	2.52	2.58
D	1.81	2.29	2.21	D	1.64	2.02	1.93	D	2.22	2.59	2.53
1981- J	1.82	2.22	2.09	1986- J	1.62	1.90	2.00	1991- J	2.01	2.57	2.61
F	1.81	2.17	1.98	F	1.67	1.94	1.90	F	1.97	2.51	2.57
M	1.81	2.24	1.89	M	1.82	2.04	2.13	M	2.14	2.66	2.50
A	1.81	2.13	1.98	A	1.80	2.07	1.99	A	2.13	2.69	2.67
M	1.83	2.18	2.14	M	1.89	2.13	1.97	M	2.11	2.68	2.73
J	1.76	2.05	1.85	J	1.90	2.18	1.95	J	2.25	2.87	2.79
J	1.63	1.86	1.82	J	1.75	2.01	1.91	J	2.32	2.85	2.70
A	1.74	2.03	1.81	A	1.76	2.15	1.97	A	2.32	2.95	2.72
S	1.73	1.94	1.72	S	1.72	2.08	1.85	S	2.43	2.87	2.61
O	1.77	2.07	1.87	O	1.78	2.11	1.84	O	2.18	2.74	2.60
N	1.84	2.09	1.81	N	1.82	2.19	1.94	N	2.20	2.75	2.66
D	1.80	2.03	1.83	D	1.80	2.09	1.90	D	2.14	2.66	2.65
1982- J	1.87	2.08	1.89	1987- J	1.86	2.23	1.98	1992- J	2.38	2.64	2.60
F	1.84	1.99	1.79	F	1.83	2.18	1.88	F	2.35	2.60	2.42
M	1.70	1.85	1.64	M	1.76	2.13	2.02	M	2.37	2.61	2.33
A	1.70	1.79	1.67	A	1.76	2.16	1.77	A	2.18	2.64	2.41
M	1.74	1.79	1.65	M	1.81	2.21	1.94	M	2.17	2.80	2.66
J	1.70	1.73	1.51	J	1.74	2.12	1.86	J	2.13	2.62	2.48
J	1.70	1.79	1.60	J	1.78	2.17	1.86	J	2.32	2.41	2.44
A	1.73	1.81	1.58	A	1.82	2.21	1.94	A	2.54	2.52	2.51
S	1.73	1.81	1.68	S	1.77	2.23	1.98	S	2.45	2.37	2.36
O	1.75	1.82	1.75	O	1.84	2.43	1.97	O	2.16	2.47	2.32
N	1.74	1.77	1.59	N	1.73	2.29	1.91	N	2.16	2.46	2.39
D	1.68	1.73	1.77	D	1.59	2.20	1.91	D	2.08	2.33	2.32
1983- J	1.72	1.72	1.52	1988- J	1.99	2.20	2.14				
F	1.77	1.75	1.60	F	1.8o	2.15	2.12				
M	1.74	1.71	1.60	M	1.75	2.04	2.02				
A	1.57	1.60	1.47	A	1.88	2.25	2.22				
M	1.52	1.55	1.37	M	1.90	2.26	2.21				
J	1.47	1.48	1.39	J	1.89	2.33	2.21				
J	1.49	1.51	1.38	J	1.86	2.35	2.22				
A	1.41	1.46	1.30	A	1.81	2.23	2.16				
S	1.43	1.43	1.33	S	1.77	2.31	2.27				
O	1.49	1.43	1.38	O	2.06	2.67	2.32				
N	1.47	1.39	1.36	N	1.96	2.44	2.24				
D	1.53	1.50	1.32	D	1.92	2.46	2.39				
1984- J	1.44	1.39	1.49	1989- J	1.82	2.19	2.29				
F	1.42	1.37	1.27	F	1.76	2.44	2.43				
M	1.44	1.45	1.34	M	1.73	2.40	2.51				
A	1.50	1.60	1.36	A	1.83	2.45	2.52				
M	1.43	1.45	1.31	M	1.85	2.45	2.49				
J	1.46	1.51	1.36	J	1.80	2.44	2.54				
J	1.40	1.51	1.34	J	1.90	2.61	2.56				
A	1.35	1.51	1.32	A	1.84	2.53	2.54				
S	1.50	1.68	1.34	S	1.87	2.70	2.62				
O	1.32	1.47	1.40	0	2.00	2.55	2.62				
N	1.34	1.53	1.52	N	1.99	2.35	2.50				
D	1.47	1.77	1.49	D	2.03	2.61	2.46				

APPENDIX B

WHOLESALE/FLOORPLAN FINANCE

TABLE B.1
Floorplanning Portfolios for New Autos
Number of Units Financed and Dollars Outstanding

	Portfolio Size			
Number of Units	*Small*	*Medium*	*Large*	*All*
Median	99	1,362	6,473	3,008
Mean	144	3,060	7,507	4,859
Number of Respondents	4	16	18	38
Dollars Outstanding				
Median (000's)	$1,313	$19,431	$106,368	$36,665
Mean (000's)	$2,428	$41,936	$124,967	$74,534
Number of Respondents	4	19	18	41

TABLE B.2
Floorplanning Portfolios for Used Autos
Number of Units Financed and Dollars Outstanding

	Portfolio Size			
Number of Units	*Small*	*Medium*	*Large*	*All*
Median	28	226	721	259
Mean	73	275	917	584
Number of Respondents	5	9	16	30
Dollars Outstanding				
Median (000's)	$132	$1,885	$5,264	$2,287
Mean (000's)	$394	$2,373	$9,906	$5,333
Number of Respondents	5	12	16	33

TABLE B.3

Change in Floorplanning Portfolios from 1991 to 1992

Average Number of Units Financed and Dollars Outstanding*

	Portfolio Size	
New Autos	*Medium*	*Large*
Number of Units		
1991	2,469	8,028
1992	2,300	7,396
Percent Change	-6.8%	-7.9%
Number of Respondents	14	16
Dollars Outstanding (000's)		
1991	$35,015	$127,604
1992	$34,455	$123,702
Percent Change	-1.6%	-3.1%
Number of Respondents	16	16
Used Autos		
Number of Units		
1991	248	893
1992	279	934
Percent Change	12.5%	4.6%
Number of Respondents	8	14
Dollars Outstanding (000's)		
1991	$2,290	$8,475
1992	$2,471	$9,511
Percent Change	7.9%	12.2%
Number of Respondents	10	14

*Insufficient number of responses to report for small portfolios.

TABLE B.4

Floorplanning and Retail Relationships

	Portfolio Size			
Floorplanning Relationships	*Small*	*Medium*	*Large*	*All*
Median Number of Dealers	3	25	82	34
Mean Number of Dealers	3	25	114	60
Retail Relationships				
Median Number of Dealers	43	48	350	178
Mean Number of Dealers	86	99	685	379

TABLE B.5
Average Gross Yield
(Basis Points Added to Prime)

Floorplanning Relationships	*Portfolio Size*			
	Small	*Medium*	*Large*	*All*
New autos	49	49	55	52
Used autos	131	122	125	124

TABLE B.6
Flat Fees Charged on Floored Units

Floorplanning Relationships	*Portfolio Size*			
	Small	*Medium*	*Large*	*All*
New autos				
Percentage assessing charge	17%	36%	36%	34%
Frequency of charge (percent of those who charge)				
One time	0.0%	60.0%	75.0%	63.0%
Monthly	100.0%	40.0%	12.5%	32.0%
Other	0.0%	0.0%	12.5%	5.0%
Used autos				
Percentage assessing charge	0.0%	43.5%	50.0%	42.0%
Frequency of charge (percent of those who charge)				
One time	—	60.0%	81.8%	71.4%
Monthly	—	40.0%	9.1%	23.8%
Other	—	0.0%	9.1%	0.0%
Number of respondents	6	28	25	59

TABLE B.7
Floorplanning of "Program Cars"
(Percent of Respondents)

Percent of Purchase Price	*Portfolio Size*			
	Small	*Medium*	*Large*	*All*
Less than 90%	50.0%	13.0%	16.0%	17.3%
90% to 100%	50.0%	87.0%	84.0%	82.7%
More than 100%	0.0%	0.0%	0.0%	0.0%
Number of respondents	4	23	25	52

TABLE B.8
Days that Auto Remains in Floorplan

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
New autos				
Mean	64	107	95	99
Median	58	90	73	88
Number of respondents	3	22	19	44
Used autos				
Mean	78	87	70	80
Median	71	17	14	35
Number of respondents	4	17	14	35

TABLE B.9
Conversion of Floorplanned Units to Consumer Loans

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Right of First Refusal on Financing*	16.7%	15.4%	24.0%	19.3%
Number of Respondents	6	26	25	57
Reward for Retail Penetration*	0%	22.2%	36.0%	25.9%
Number of Respondents	6	27	25	58
Number Which Became Retail Loans	13.3%	28.5%	34.6%	29.9%
Number of Respondents	3	11	14	28

*Percentage of respondents.

TABLE B.10
Percentage of Respondents Offering Floorplan Insurance to Dealers

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Percent of respondents	0.0%	18.0%	60.0%	35%
Number of respondents	6	28	25	59

TABLE B.11
Methods Used to Protect Floorplanned Autos
(Percentage of Respondents)

Method	*Portfolio Size*			
	Small	*Medium*	*Large*	*All*
Repurchase agreement	16.7%	35.7%	40.0%	35.6%
Dealer reserve agreement	16.7%	57.1%	64.0%	55.9%
Manufacturers repurchase agreement	66.7%	85.7%	92.0%	86.4%
Lenders indemnity insurance	50.0%	25.0%	24.0%	27.1%
Lender holds MCO	33.3%	17.9%	8.0%	15.3%
Personal Individual Guarantee	100.0%	85.7%	88.0%	88.1%
Inspection of units	100.0%	96.4%	100.0%	98.3%
Other	16.7%	17.9%	33.3%	24.1%
Number of respondents	6	28	25	59

TABLE B.12
Floorplan Audits
(Percentage of Respondents)

Method	*Portfolio Size*			
	Small	*Medium*	*Large*	*All*
Required more than once per month	0.0%	7.0%	8.0%	7.0%
Reconciled against factory statement	64.0%	36.0%	28.0%	36.0%
Number of respondents	6	28	25	59

TABLE B.13
Business Days before Vehicle is Sold Out of Trust
(Percentage of Respondents)

Number of Days between Sale and Pay-off	*Portfolio Size*			
	Small	*Medium*	*Large*	*All*
1 to 2	0	8	24	15.5
3 to 4	33	59	40	46.6
5 or more	67	33	36	37.9
Number of respondents	6	28	25	59

TABLE B.14
Floorplan Liquidations

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
Percent with policy to put dealer on finance hold	50%	73%	92%	79%
Percent that had a floorplan liquidation during past 1992	33%	36%	52%	42%
Average number of liquidations	1.5	1.9	2.4	2.1
Number of respondents	6	28	25	59

TABLE B.15
Use of Curtailment
(Mean Values)

	Portfolio Size			
	Small	*Medium*	*Large*	*All*
New Autos				
Number of months before curtailment	6.0	11.9	11.8	11.6
Percent of balance to be paid thereafter	6.7%	9.0%	7.7%	8.2%
Payments to be paid every ___ month	1.7	2.1	1.8	1.9
Number of months within which balance must be paid	12.0	14.2	14.8	14.4
Number of respondents	3	22	21	48
Used Autos				
Number of months before curtailment	3.0	5.8	3.3	4.5
Percent of balance to be paid thereafter	17.7%	9.3%	9.9%	10.2%
Payments to be paid every ___ month	3.0	1.7	1.4	1.6
Number of months within which balance must be paid	8.3	7.4	6.5	7.1
Number of Respondents	3	21	20	44
Demonstrators				
Number of months before curtailment	*	6.6	3.3	4.6
Percent of balance to be paid thereafter	*	3.9%	5.8%	4.9%
Payments to be paid every ___ month	*	1.2	1.7	1.5
Number of months within which balance must be paid	*	13.2	13.5	13.3
Number of respondents	*	15	21	34

*Insufficient number of responses to report.

TABLE B.16

Net Losses as a Percentage of Outstandings

(Mean of Respondents' Percentages)

	Portfolio Size		
	Medium	*Large*	*All*
1988	0.03%	0.05%	0.04%
1989	0.07%	0.25%	0.14%
1990	0.59%	0.31%	0.40%
1991	0.61%	0.52%	0.51%
1992	0.28%	0.61%	0.39%

APPENDIX C

INDIRECT AUTO LEASING

TABLE C.1
Lease Portfolio Size Categories for 1992 Sample
(Closed-end and Open-end Leases)

Portfolio Size	*Sample Range (Number of Leases)*	*Mean Number of Leases*	*Median Number of Leases*	*Number of Respondents*
Small	Less than 750	625	720	5
Medium	750 to 9,500*	3,484	2,692	19
Large	Greater than 20,000	41,935	41,171	10
All		14,373	3,466	34

*There were no respondents with portfolios greater than 9,500 leases but less than 20,000 leases.

TABLE C.2
Closed-end vs. Open-end Leases

Closed-end	*Mean Number of Leases*	*Median Number of Leases*	*Mean Dollar Receivables*	*Number of Respondents*
Small	605	720	11,220	4
Medium	3,409	2,600	46,640	19
Large	39,094	41,170	658,063	10
All	13,868	2,932	227,626	33
Open-end				
All	3,881	642	69,671	8

TABLE C.3
Change in Lease Portfolios, 1991-1992*
Closed-end and Open-end Leases

	Portfolio Size		
Number of Leases	*Medium*	*Large*	*All*
Mean	30.5%	15.3%	25.7%
Median	10.9%	15.4%	11.0%
Contract Receivables ($)			
Percent change*			
Mean	33.0%	21.%	28.%
Median	19.1%	10.0%	13.5%
Number of Respondents**	18	10	30

*Mean and median of respondent's percentage changes.
**Banks reporting data for both years.

TABLE C.4
Total Closed-end Leasing Activity
1991 vs. 1992

1991	*1992*	*% Change*	
Total Applications	179,118	218,752	22.1%
Total Leases Booked	89,036	121,189	36.1
Total Dollar Volume (millions)	2,019	2,832	40.3
Number of Respondents	27	27	

TABLE C.5
Closed-end Lease Applications
1991 vs. 1992
(Banks Reporting Both Years)

	Lease Applications (mean values)	
Portfolio Size	*1991*	*1992*
Small	1,524	1,063
Medium	1,522	2,165
Large	17,028	20,460
All	6,889	8,414

TABLE C.6
Closed-end Lease Approvals
1991 vs. 1992
(Banks Reporting Both Years)

	Lease Approvals	
Portfolio Size	*1991*	*1992*
Small	874	636
Medium	863	1,325
Large	10,741	13,151
All	4,283	5,366

TABLE C.7
Closed-end Lease Contracts Booked
1991 vs. 1992
(Banks Reporting Both Years)

	Leases Booked	
Portfolio Size	*1991*	*1992*
Small	595	563
Medium	731	1086
Large	8,542	11,530
All	3,424	4,661

TABLE C.8
Approval and Booking Rates on Closed-end Leases
1991 vs. 1992*
(Percentages)

		Approvals/ Applications	*Bookings/ Approvals*	*Bookings/ Applications*
1991	All	62.2	79.9	49.7
	Medium	56.7	84.7	48.0
	Large	63.1	79.5	50.2
1992	All	63.8	86.9	55.4
	Medium	61.2	82.0	50.2
	Large	64.3	87.7	56.4

*27 banks reported data for both years.

TABLE C.9
Organizational Location of Leasing Operations
(Percentage of Respondents)

	Portfolio Size		
Number of Leases	*Medium*	*Large*	*All*
Separate Leasing Department	18.8	30.8	23.5%
Combined with Auto Lending	68.8	69.2	67.6
Other	12.4	0	8.9
Number of Respondents	16	13	34

TABLE C.10
Average Processing Time on Leases
Application to Approval
(Percentage of Respondents)

	Portfolio Size		
Number of Leases	*Medium*	*Large*	*All*
Less than one-half hour	0.0%	0.0%	0.0%
One-half to one hour	13.3%	15.4%	15.2%
One to two hours	60.0%	53.8%	54.5%
Two or more hours	26.7%	30.8%	30.3%
Total	100.0%	100.0%	100.0%

TABLE C.11
Source of Lease Originations
(Percentage of Respondents)

	Portfolio Size		
	Medium	*Large*	*All*
Dealers	84%	94%	86%
Independent Lessors	16%	6%	14%
Number of Respondents	16	13	34

TABLE C.12
Lease Terms and Turnover
1991 vs. 1992

	1991	*1992*
Average Duration (months)	50.4	49.0
Maximum Duration (months)	60.8	61.0
Average Turnover (Inception to Payoff, Months)*	38.0	40.0

*Leases terminated during 1992.

TABLE C.13
Method of Billing
(Percentage of Respondents)

	Portfolio Size		
	Medium	*Large*	*All*
Coupon Books	55.9%	19.7%	41.4%
Monthly Billing	44.1%	80.3%	58.6%

TABLE C.14
Lease Acquisitions Fees and Security Deposits
(Percentage of Respondents)

	Portfolio Size		
Acquisition Fee Charged	*Medium*	*Large*	*All*
Flat Acquisition Fee	88.2	92.3	85.7
Other Acquisition Fee	5.9	7.7	8.6
No Acquisition Fee	5.9	0	5.7
Average Size of Flat Dollar Fee	$286	$350	$305
Security Deposit Charged			
Flat Dollar Fee	5.9	8.3	6.1
One Month's Rent	88.2	66.7	81.8
Both	5.9	25.0	12.1
Number of Respondents	17	13	34

TABLE C.15
Capitalization of Costs in Leasing

	Portfolio Size		
	Medium	*Large*	*All*
Percent disclosing capital costs in lease	5.9%	7.7%	5.7%
Most Frequent Lease Factor (December, 1992 Leases)			
Closed-end	8.15%	7.93%	8.24%
Open-end	8.08%	8.48%	8.86%
Percent that capitalize fees in lease	100.0%	100.0%	97.1%
License Fees	52.9%	33.3%	45.5%
Personal Property Tax	11.9%	16.7%	15.2%
Registration Fees	58.8%	33.3%	48.5%
Sales Tax	47.1%	41.7%	48.5%
Warranty Package	88.2%	91.7%	90.9%
Maximum Cap Costs Advanced as Percentage of MSRP	106	107	103

TABLE C.16
Insurance Products Offered
(Percentage of Respondents)

	Portfolio Size		
	Medium	*Large*	*All*
Life Insurance	10.5%	9.1%	8.6%
Unemployment Insurance	10.5%	9.1%	8.6%
Gap Insurance	31.6%	30.8%	31.4%
Accident and Health Insurance	10.5%	0.0%	5.7%
No Insurance Products Offered	52.9%	69.2%	62.9%
Number of respondents	19	11	35

TABLE C.17
Residual Value Insurance Purchased

	Portfolio Size		
	Medium	*Large*	*All*
Percent Purchasing Residual Value Insurance	57.9%	54.5%	54.3%
Residual Value Insurance Contains Deductibles*	18.2%	16.7%	15.8%
Average Premium as Percentage of Residual Value			
With deductible	2.3%	1.0%	1.8%
Without deductible	1.8%	1.9%	1.9%

*Percentage of those who purchase residual value insurance.

TABLE C.18
Disposition of Leases Reaching Term, 1991 vs. 1992
(Percentage of Respondents)

	1991	*1992*
Percentage that Reached Full Term	62.0%	44.0%
Of Those Leases Reaching Term:		
Returned to Lessor	27.6%	26.0%
Extended Month-to-Month	4.9%	5.0%
Converted to New Lease/Loan	16.8%	17.0%
Paid-Off for Cash	50.7%	52.0%
Total	100.0%	100.0%
Number of Respondents	39	29

TABLE C.19
Disposition of Leases Reaching Term, by Portfolio Size, 1992
(Percentage of Respondents)

	Portfolio Size		
	Medium	*Large*	*All*
Returned to Lessor	19%	31%	26%
Extended Month-to-Month	5%	5%	5%
Converted to New Lease/Loan	21%	15%	17%
Paid off for Cash	56%	48%	52%
Total	100%	100%	100%
Number of respondents	15	12	29

TABLE C.20
Residual Value Insurance Claim Experience
(1992)

	Portfolio Size		
	Medium	*Large*	*All*
Average Percentage of Full-term Leases Resulting in Claim	13.4%	10.3%	14.4%
Average Size of Claim in Dollars	$1,822	$1,618	$1,714
Method of Setting Residual Values			
Guide Book	87.5%	53.8%	72.7%
Own Values	12.5%	38.5%	2.3%
Other	0.0%	7.7%	3.0%
Percent with Residual Value Greater than Guide Book Limits	7.6%	25.9%	15.2%
Number of Respondents	19	11	35

TABLE C.21
Liquidation Costs

	All Respondents
Percent of Full-term Leases Resulting in Loss	44.8%
Average Dollars Loss upon Sale	$812
Percent Full-term Leases Resulting in Gain	47.9%
Average Dollars Gained upon Sale	$436
Average Dollars Liquidation Expense (excluding gain/loss on sale)	$231
Number of Respondents	35

TABLE C.22
Leasing Policies
(Percentage of Respondents)

	All Respondents
Percentage of Leases that Reach Full Term (1992)	44.0%
Assess Early Termination Fee	74.3%
Average Size of Fee	$190
Assess End-of-Term Fee at Maturity	48.6%
Average Size of Fee	$245
Allow Extensions at Lease-end	80.0%
Allow Third Party Assumption	65.7%
Allowable Miles Per Year (Average)	14,681
Average Cents per Mile for Excess Mileage	11
Number of Respondents	35

TABLE C.23
Delinquencies*

	Percent of Accounts		*Percent of Dollars Outstanding*	
Time Past Due	*1991*	*1992*	*1991*	*1992*
31 to 59 Days	1.97%	1.81%	1.95%	1.74%
60 to 89 Days	0.39%	0.47%	0.38%	0.47%
90+ Days	0.26%	0.26%	0.29%	0.26%
Total	2.62%	2.54%	2.62%	2.47%
Number of Respondents	34	30	34	28

*Means of respondent's percentages.

TABLE C.24
Delinquencies
Percentage of Number of Accounts Outstanding by Size of Respondent*

	Percent of Account		*Percent of Dollars Outstanding*	
Time Past Due	*Medium*	*Large*	*Medium*	*Large*
31 to 59 Days	1.24%	1.81%	1.08%	1.89%
60 to 89 Days	0.29%	0.27%	0.24%	0.26%
90+ Days	0.22%	0.09%	0.20%	0.11%
Total	1.7%	2.17%	1.52%	2.26%
Number of Respondents	14	12	14	12

*Means of respondent's percentages.

TABLE C.25
Repossessions

	Percentage	*Dollars*	*Number of Respondents*
Average Repossession Frequency (Repossessions/Accounts)	2.32%	—	32
Loss on Repossessions (Percentage of Dollars Outstanding)	1.19%	—	27
Average Fully Loaded Cost Per Repossession	—	$335	29
Average Cost to Sell Repossessed Unit (dollars)	—	$233	30
Average Net Credit Loss per Repossession (dollars)	—	$4,287	31

TABLE C.26
Losses on Lease Portfolio

	Mean of Respondents' Percentages	*Number of Respondents*
Average Gross Credit Loss (Percent of Average Dollars Outstanding)	1.04%	27
Average Net Credit Loss (Percentage of Average Dollars Outstanding)	0.76%	29
Percent of Gross Dollar Chargeoffs Attributable to Bankruptcy	21.8	18